

EXPLORING THE IMPACT OF CULTURE IN STRENGTHENING THE STEWARDSHIP  
OF COMPACT FUNDS IN THE FEDERATED STATES OF MICRONESIA:  
A CONVERGENT PARALLEL MIXED METHODS DESIGN

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## **Abstract**

As the U.S. attempts to create conditions for a self-sufficient Federated States of Micronesia (FSM), significant uncertainty remains. Based on the agreement between the U.S. and the FSM under the Compact of Free Association Act (COFA) of 1985, Federal funds are transferred to FSM to sustain its economy in return for the free use of FSM's land, water and air for U.S. military purposes. As originally envisioned, this transfer would be complete by 2023, but with only a few years remaining, this goal seems unattainable. Neither the U.S. government nor the FSM seem willing to make concessions. With the U.S. demanding better oversight and accountable accounting practices, and the U.S. Financial Stability Board (FSB) asserting culturally informed management prerogative, both entities' interests are imperiled, especially as China seems to be waiting in anticipation to pick up the pieces should an impasse be reached.

This mixed-methods research (surveys and interviews) was conducted utilizing the employees of two FSM national government departments: The National Department of Education and National Department of Public Health and Human Services. These two FSM departments receive the largest share of federal assistance.

This research paper attempts to generate insights on the impact of culture in strengthening the accountability of Compact funds in the FSM. The study explores the social stratification and hierarchy in Micronesian societies in terms of stewardship competencies to fulfill the federal administrative requirements in the management of federal funds. What works for the mainland U.S. may not work worldwide. The effect and import of cultural influences cannot be understated, particularly in relationships amongst cultures that vary widely, as do those of the U.S. and FSM. It's important to understand the nuances of how the notion of stewardship is perceived and exercised in other countries, especially when the interests of two

nations converge, while their cultures do not. This study represents the present environment in FSM governance.

Understanding culture and its influences is an essential step in considering the real effect on a leadership style, transcending to ethics and stewardship. A leadership style can have a different effect or impact in other societies relative to the cultural environment in which it is adopted. This research finds support for the notion that leadership styles cannot be embraced and applied in similar manner throughout the various cultures or nations. There are a wide variety of different leadership styles across the globe; each individual region possesses its own cultural idiosyncrasies, and naturally these are reflected in the way in which people lead. This dissertation concludes with eight specific recommendations for implementing structural and policy reforms which will strengthen the relationship between the U.S. and FSM and better prepare FSM to be self-sufficient.

## **Dedication**

I dedicate my dissertation work to my wonderful daughter Jasmine whose constant push for tenacity encouraged me to keep moving forward throughout the entire doctoral program. A special gratitude to my husband Kevin who never doubted that I could finish this journey. To my sister Linda who asks each time I see her: “Are you not done yet?” All of you have been my best cheerleaders. A final thank you goes to Dr. Chen Huang who kept me healthy during my journey.

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### **List of Abbreviations**

ADB	Asian Development Bank
CNMI	Commonwealth of the Northern Marianas Islands
COFA	Compact of Free Association Act
CTF	Compact Trust Funds
FSB	Financial Stability Board
FSM	Federated States of Micronesia
GAO	Government Accountability Office
GDP	Gross Domestic Product
HHS	Department of Health and Human Services
IMF	International Monetary Fund
JEMCO	Joint Economic Management Committee (FSM)
JEMFAC	Joint Economic Management and Financial Accountability Committee
LTFF	Long-Term Fiscal Framework
MCC	Millennium Challenge Corporation
NGO	Non-Governmental organization
OIA	Office of Insular Affairs
PDI	Power Distance Index
RAB	Regulatory Advisory Board
RMI	Republic of the Marshall Islands
SOG	Strategic Opportunity Grants
SPSS	Statistical Package for the Social Sciences
SSI	Scientific Software International
TTPI	Trust Territory of the Pacific Islands
WDI	World Development Indicators

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## **Chapter 1: Introduction**

### **1.1 History of the Federated States of Micronesia**

The term “Micronesia” is derived from the Greek words *mikrós* meaning "small" and *nêsos* meaning "island" (Hanlon, 1998). Micronesia is a cluster of thousands of small islands in the western Pacific, located over the equator over 2,500 miles southwest of Hawaii, with the island section of Polynesia to the east and Melanesia to the south. The Micronesian region historically referred to as the Caroline Islands, is located north of New Guinea, in the northwestern Pacific Ocean. These regions are politically segregated, with the FSM in the eastern portion and Palau at the western portion. When these sections were considered part of the Spanish East Indies, they were referred to as *Nuevas Filipinas*, or New Philippines, because they were governed from Manila. In 1979, Palau gained sovereignty and separated from the rest of the islands (About the Federated States of Micronesia, 2012).

The FSM is composed of four states: from west to east – Yap, Chuuk, Pohnpei and Kosrae. It was previously part of the Trust Territory of the Pacific Islands (TTPI), placed by the United Nations under U.S. administration in 1947 after World War II. The TTPI is comprised of six districts, namely: The Commonwealth of Northern Mariana Islands (CNMI), Palau, the Marshall Islands, Yap, Chuuk, Kosrae and Pohnpei. It covered the entire island region of Micronesia and had a water range the extent of continental U.S. The History of Micronesia (Hezel and Foster, 2018) states that the TTPI was established under the governance of the U.S. through a Trusteeship Agreement that laid down the legal basis for FSM’s government, including codes that defined citizenship. In 1965, the U.S government formed the Congress of

Micronesia for the Trust Territory to promote self-governance in the Pacific Islands (About the Federated States of Micronesia, 2012).

In 1978, the Northern Mariana Islands adopted a constitution and acquired Commonwealth status, withdrawing from the Congress of Micronesia. Upon the adoption of the constitution, the FSM was then established comprising of the people of Chuuk, Yap, Pohnpei and Kosrae. In the same year, the Marshall Islands also adopted a constitution and established the Republic of the Marshall Islands (RMI). The FSM and the RMI then consented to the provisions of a Compact of Free Association with the U.S. and became sovereign states after independence was attained on November 3, 1986. The United Nations terminated the trusteeship for Chuuk, Yap, Pohnpei, Kosrae, the Northern Mariana Islands, and the Marshall Islands on December 22, 1990, pursuant to Security Council Resolution 683. The FSM and RMI became members of the United Nations on September 17, 1991 (U.S. Department of Homeland Security, 2015).

Each of the four FSM states have their own cultural diversities and have specific indigenous languages, although English remains the official language for commerce. The state of Kosrae considers the Church to have significant role in the daily activities of the residents while the state of Chuuk gives importance to clanship and family relations. Yap is more traditional; a caste system governs its culture. The caste system defines a family's social structure or hierarchy in their society, which is determined by birth. Pohnpei remains the hub of business activities as it is more welcoming to outsiders and follows more westernized ways of life. FSM national government offices are located in Palikir, Pohnpei, the largest and most developed state among the other states. Although the four FSM states share cultural similarities, there are differences in the origins of their culture that may have different effects and meanings distinct from each other's cultural environment (Hezel and Foster, 2018).

Today, the FSM has attracted varied ethnicities as a result of job creation stemming from the yearly infusion of federal grant assistance in support of programs under various FSM sectors (see Figure 1).

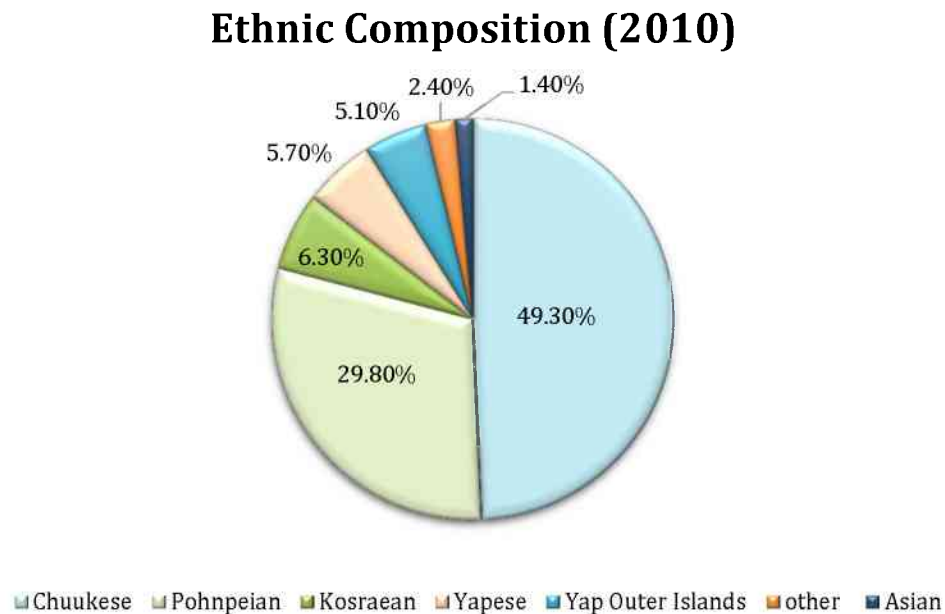


Figure 1. Federated States of Micronesia: Ethnic Composition  
Source: “Micronesia: History” by Hezel and Foster (2018)

### 1.1.1 Early governance and struggle against U.S. colonialism

In 1947, towards the end of World War II, the U.S. occupied FSM primarily for strategic reasons. A Western style of governance was implemented which offered a very minor economic advantage. In *The Edge of Paradise* (1993), Peace Corps volunteer P.F. Kluge stated that colonists easily argued that with federal funding, Micronesians would reap the benefit of modern ways and that the people would adjust themselves to the white man’s world. The author argued that colonialism far outweighed the promised benefits and Micronesia continued to



depend on U.S. aid through the Compact programs that remained as its primary source of economic sustainability.

In David Hanlon's book, *Remaking Micronesia* (1998), Hanlon stated that the U.S. government took interest in the strategic location of the Micronesian islands to serve as a nuclear testing ground, and in exchange, offered federal programs that would give FSM funds to sustain its economy. In 1978, Kiku Apis, an FSM legislator speaking at the Pohnpei House of Representatives, expressed deep reservations about this arrangement and decried the lack of economic development plans that would truly sustain the Micronesian economy. He argued that poorly planned and impractical projects which had been spearheaded by overcompensated expatriots and contractors had transformed the Micronesian islands into "graveyards" (Hanlon, 1998). Apis believed that these federal programs subverted Micronesian efforts at independence and self-reliance.

### **1.1.2 Exploitation Colonialism<sup>1</sup>**

Colonialism as defined in Merriam-Webster's Collegiate Dictionary (n.d.), is an economic policy of conquering a colony to exploit natural resources and its native population. While colonialism and imperialism are often used interchangeably, footnote 1 differentiates these. Colonialism usually occurs in pre-populated areas. Socio-cultural evolution arises creating divided communities which leads to the formation of various ethnically hybrid populations, such as the mestizo's nation. The continued existence of colonial power and authority often progresses in the creation of hybrid communities (Peoples, 1993).

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<sup>1</sup> According to the Stanford Encyclopedia of Philosophy, colonialism is an act of domination involving the subordination of one nation to another's political and economic control. Often, it is difficult to differentiate from imperialism as they are treated in the same manner in other writings. Imperialism, however, is the act of invoking command and power over the constituents of a nation.

According to the archives of the Trust Territory of the Pacific Islands found at the University of Hawaii – Manoa Library, it states: “The Micronesian states were governed by the U.S. and became known as the Trust Territory of the Pacific Islands in 1947 under the direct authority of the United Nations” (University of Hawaii at the Manoa Library, n.d.). The interest of the U.S. in the trust territory was solely for military and logistic purposes due to the advantageous location of the islands in protecting U.S. interests against nearby nations. The exploitation focused on the colonists’ reliance on indigenous resources for manual labor and material supplies. The impact of such uneven relationships between the colonial power and the islands cemented colonial control over the islands’ political and economic administration, including the creation of new programs that endangered the preservation of native cultures. This was the beginning of an enforced cultural transformation. The development planning was grounded in the logic and rationality of Western capitalism, forcing the Western lifestyle onto FSM’s heritage. U.S. colonialism extended an offer of help but masked the subtle conveyance of threat and intimidation. The economic plan was a prescription of a new way of life for people who had no voice in deciding their future. It promoted a commercial exploitation of Micronesian resources for the benefit of American bases. While the objective of the plan was the recovery of Micronesia’s economic status and a makeover of its natural and cultural environment, it ended up being a plan that is self-serving to the colonial power (Hanlon, 1998).

### **1.1.3 History of the Micronesian Islands Occupation**

It is important to document the chronology of the islands’ colonization by understanding the beginning of culture shifts of the islands’ traditions and beliefs that adjusted into the many

foreign occupations that had besieged the Caroline Islands' heritage as discussed in the next sections. In my many visits to the FSM, and lately in 2018 when I conducted my research, I interacted with locals that are mixed race, an evidence of intermarriage as a result of the islands' colonization from varied colonists as shown in Figure 4-Timeline of Micronesian governance.

#### **1.1.4 Spanish Colony with Religious Character**

Sometime in 1525, Portuguese navigators were carried by storm and reached the Caroline Islands, although the first documented settlement was in 1521 with Portuguese navigator named Ferdinand Magellan who was searching for a short route to Asia. By 1528, the Spanish explorers had settled in the Uliti Islands in the name of the King of Spain, King Carlos II. The islands which included Palau, were then christened after him: Las Carolinas. The settlement in the Caroline Islands was predominantly influenced by religion; in 1707, a royal decree was implemented authorizing the missionaries to be sent to the islands. By 1885, trading started between the Philippines, Australia, and America (Guampedia, Inc.<sup>2</sup>, n.d.) This was the start of Christianity in the islands. In 1898 when the Spanish-American War ended, the ownership of the Carolines and Marianas was transferred to Germany for a price of 25 million pesetas or the equivalent of 17 million in gold mark.

#### **1.1.5 The German Occupation with Modernization and Commerce**

By 1900, Yap and Pohnpei were regular delivery points of mail between German New Guinea and Hong Kong. Germany immediately printed its own postal stamp and named it

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<sup>2</sup> Guampedia, Inc. is a non-profit organization established in 2009 that chronicles the history of Guam and its neighboring islands. It is affiliated with the University of Guam's Richard F. Taitano's Micronesian Area Research Center. It is funded mostly by National Endowment for Humanities, U.S. Department of the Interior, and donations.

“Karolinen” (Figure 4). Following the Spanish cession of FSM to Germany in 1899, the Spanish currency was still used but with the implantation of the German circular punch on top of the coin currency. The German Empire concentrated on establishing and protecting trade including safeguarding the raw materials, its export market and opportunities for capital investments. The rise of German imperialism and colonialism established shipping lines that brought exotic fruits and spices from the islands straight to Germany. Germany recognized the convenience of exploiting the indigenous population through forced and unpaid labor, subjecting the locals to much harsher treatment compared to their German colonial counterparts. This resulted in local inhabitants losing tribal or hierarchical positions in their villages, to the extent that some villagers were forced into slave labor. Although Germany partially banned slavery in 1905, this disparity and damage to their existing social structures brought about resentment and eventually led to revolutionary activities from the Micronesians. The end of the German colonial empire over the Pacific occurred in 1914 when Japan declared war on Germany. There was little resistance and Japan quickly took over several colonies controlled by Germany, including the Carolines, Marianas, and Marshall Islands. (Boundless World History: German Imperialism, n.d.).



Figure 2. Stamp from the German Postal Service.

Source: <https://www.stampworld.com/en/stamps/German-Caroline-Islands>

Note: Germany rebranded the Caroline Islands as the “Karolinen” quickly after gaining control of the islands

### **1.1.6 The Japanese Occupation**

Much like the Germans, the Japanese Empire focused on trade, but also introduced Micronesians to the Shintoism and Buddhist faiths. In Hezel's book, *Strangers in their Own Land*, the author wrote about the period of Japanese invasion and occupation of FSM around the period of 1914 with the deployment of two Japanese naval squadrons: one in the Western Carolines and the other in the Eastern Carolines. In 1920, at the conclusion of World War I, the Empire of Japan received the South Pacific Mandate which gave it sovereignty over the Caroline and Marshall Islands (Hezel, 2003). Between the 1920s and 1930s, a large population of Japanese immigrated to the islands and many of them became fishermen, farmers, and construction laborers; the majority of immigrants settled in Pohnpei and Chuuk, where tuna canning factories were set up. The Japanese population had increased to about 100,000 by 1945. This influx of Japanese brought the Shinto and Buddhist religions to Micronesia, though neither took hold amongst the indigenous people to the degree the earlier Christian missions had (Myers and Peattie, 1987).

The many inhabitants of the Micronesian Islands contributed to the different governance of FSM, including varied languages left behind by the colonists. The longest colonists were the Japanese where the impact of the language carries up to this day for the many Japanese settlers that have stayed on. On the island of Chuuk, land was taken away from inhabitants to make way for the construction of military buildings and other infrastructure. Although cultural alliances between the Micronesian people and Japanese immigrants were initially friendly, and intermarriage between the two peoples had been encouraged, relations became strained by the

increasing favoritism the Japanese policies showed to Japanese immigrants demonstrating a certain callousness toward the culture of Micronesia. Micronesians endured the Japanese occupation and its attendant disrespect toward their culture until Japan surrendered at the end of World War II, when the U.S. became the newest occupying power. Figure 3, below, showcased a closely guarded Ulithi atoll in Caroline Islands with U.S. Navy ships sprawled across the atoll demonstrating the extent and readiness of the Americans in defending the islands from the Japanese. At the backdrop were American soldiers enjoying a relaxing moment while on guard.

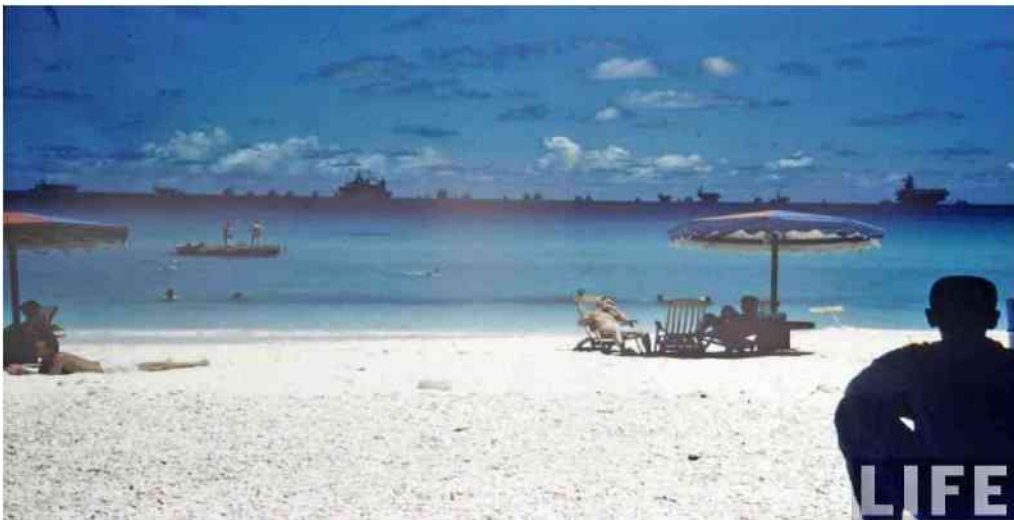


Figure 3. U.S. Naval base kept at bay at Ulithi atoll in the Carolines  
Source: March 11, 1945 issue of Life Magazine

While the majority of Japanese immigrants were returned to Japan after the surrender, those who had intermarried or were of mixed Japanese and Micronesian descent were given the option to remain. Many of them chose to stay and subsequently came to hold important positions in the private, public and governmental offices; some of them even became FSM political leaders. The Shinto shrines and Buddhist temples the Japanese had built during their tenure were

soon deserted and Japanese-Micronesians increasingly began adopting Christianity over Shinto or Buddhism. Christianity remains the main religion throughout FSM. Today, people continue to go to church worship and Bible study on Sundays, which became an important Sunday ritual for Micronesian families (Halsted, 2015).

### **1.1.7 Chronology of Colonial Governors or Officers**

According to the FSM Fact Sheet (U.S. Department of Homeland Security, 2018)

Micronesia was greatly influenced by the culture and leadership of four major colonists between 1886 and 1994. Japanese Imperialism has the most profound effect on Micronesians and Japanese culture still lingers due to the intermarriages with Micronesians. Japan's presence still permeates the Micronesian society, and noticeable by how many family groups carry Japanese names.

1886 – 1898 Spanish governors
1898 – 1914 German governors
1914 – 1945 Japanese Empire
1946 – 1994 United Nations Trust Territory
(total independence in 1991; Palau in 1994)

Figure 4. Timeline of Micronesian Governance. Retrieved from <http://www.bbc.com/news/world-asia-pacific-15519757>

## **1.2 Background: FSM Federal Assistance and Compact Funds**

The structure of government that evolved in these islands was in part patterned after the organization of the TTPI. In fact, the TTPI was instrumental in shaping the early development of

the Commonwealth of Northern Mariana Islands, Palau, the Federated States of Micronesia (FSM), and the Marshalls and assisted in forming the American legal system in Micronesia (Bellas, n.d.).

The end of the Trust Territory agreement in 1984 marked the start of a bilateral agreement between the Trust Territories and the U.S. The states of Chuuk, Pohnpei, Kosrae and Yap became independent nations and became the FSM, with a new self-governing constitution. The Compact of Free Association Act (COFA) of 1985 was issued and federal assistance in aid was provided to start the critical economic development and the promotion of growth. By 1986, the U.S. and the FSM governments ratified the COFA, officially ending the administration of the United States. The overall goal of federal assistance and services was to aid the FSM on its path to self-governance, thereby attaining economic self-sufficiency and the assurance of national security rights for the United States (U.S. Department of Homeland Security, 2015).

Federal activities are transacted in Palikir, Pohnpei. Palikir is the capital of FSM where all the offices of the National FSM government are located. The FSM receives funds from two sources: Compact sector grants and Compact Trust Fund contributions. The first funding stream is from the Compact sector grants which encompassed the federal Grant Assistance under the COFA Act of 2003 that extends yearly assistance to FSM in exchange for free military use of FSM's land, water and air. U.S. federal grant assistance started in 1986 and continues through a Compact funds agreement that will end in 2023. The FSM budget averages about \$100 million each year (see Appendix B). Table 1, below, shows the 2017 fund allocations concentrating on six areas of program funding as follows:



Table 1. Fiscal Year 2017 Fund Allocation by Sector (estimate)

<b>Sector</b>	<b>Funds Allocated</b>
Education	\$25,646,846
Health	\$22,115,289
Infrastructure	\$14,971,770
Environment	\$1,791,980
Capacity Building	\$2,009,511
Private Sector	\$1,655,693
Enhanced Reporting and Accountability	\$1,562,227
Section 211 Sector Grant Allocations	\$69,753,316
<i>Total</i>	<i>\$139,506,632</i>

Source: [https://www.doi.gov/sites/doi.gov/files/uploads/fy2018\\_oia\\_budget\\_justification.pdf](https://www.doi.gov/sites/doi.gov/files/uploads/fy2018_oia_budget_justification.pdf), p.80

A total of \$139 million was allocated for various projects; however, the projects were not fully funded due to the FSM's inability to adequately provide proper management of infrastructure projects. Section grant allocations of \$69 million were earmarked as supplemental programmatic funding to assist in implementation and management of the major sectors. The final allotment approved for FY 2017 was \$110 million as referenced in Appendix B.

The second funding stream to FSM is the Compact Trust Funds (CTF) which was implemented when the COFA of 2003 was enacted. The CTF was established under the same U.S. Public Law 108-188 that implemented the federal assistance programs. However, the goal of the CTF is to provide economic sustainability and long-term budgetary financial independence once the yearly grant assistance under the Compact ends in fiscal year 2023. According to the FY 2016 Annual Report issued March 22, 2017 the total CTF assets as of FY2016 is at \$466 million (Baker Tilly Virchow Krause, LLP, 2017). Yearly federal funding is at an average of \$22 million. Table 2 shows the yearly contribution into the Trust Fund. In 2011, the FSM Trust Fund

was established to assist the CTF in sustaining long-term financial viability and provide an additional source of revenues (Government of the Federated States of Micronesia, Office of the National Public Auditor, 2015).

Local source of funding is generated mostly from fishing. Micronesian seas are abundant in fish resources, specifically skipjack, yellowfin, and tuna. FSM's Exclusive Economic Zone (EEZ) expands to 3 million square kilometers, equivalent to the size of India. The fishing industry is a major mainstay, sustaining the economic growth strategy called for in the FSM Action Plan of 2023. Fishing exports have been realizing a big growth due to the rising price of tuna in the international market. The fishing industry dominates Micronesia's exports, accounting for more than 85% of total exports. While the population employed by the fishing industry is fairly small at 2%, FSM's abundant natural resources have facilitated Micronesia's strong tradition of sharing and caring practices through the extended family, resulting in a smaller population living below the poverty level than might be expected, which indicates that poverty due to hunger is not widespread (International Monetary Fund, 2015).

### **1.2.1 Compliance Laws of Federal Grants Assistance**

According to the U.S. Department of the Interior, Office of Insular Affairs report on FY2017 Budget Justification, the FSM's poorly developed infrastructure and isolated condition have hampered its economic growth. Subsistence comes from fishing and tourism activities, but the FSM generates most of its economic sustainability from the Impact Act under the Compact of Free Association (COFA) with the U.S. (U.S. Department of the Interior, Office of Insular Affairs, 2018). This agreement established economic and financial aid programs for the FSM and other Insular Areas in exchange for free use of the land for military purposes (Hanlon, 1998). The COFA Act of 1985 enacted an agreement between the U.S., the RMI, and the FSM

that ended the U.S. trusteeship over the former Trust Territory of the Pacific Islands as required under U.S. Public Law 99-239. This triggered the establishment of the FSM as an independent nation. The COFA between the U.S. and the FSM was promulgated on November 3, 1986. The end of the TTPI agreement and the establishment of COFA marked the start of a new constitution that paved the way for FSM's independence and self-government. Federal grants and assistance in aid were provided to start the critical economic development and help the growth move forward. The U.S. armed forces have full authority and exclusive use of the land, airspace, and territorial waters for military purposes. Finding the middle ground of certain terms of the Compact was required by the provisions of the Compact. In 2003, certain portions of the Compact agreement, specifically the economic sections, were changed to secure more benefits for FSM. The Public Law was signed into law on December 17, 2003, and by May 2004, the FSM Congress had endorsed and sanctioned the new changes. By June 2004, the FSM and U.S. governments affirmed the changes to officially carry out the amendment to the Compact. The amended COFA of 2003 most notably provides guaranteed U.S. financial assistance to compensate FSM for the U.S. national security rights and exclusive use of FSM's land, airspace, and territorial waters for military use. The overall goal of federal U.S. assistance and services is to assist the FSM on its path toward economic independence and sustainability beyond the year 2023. The amended COFA included new provisions on Citizenship status of the citizens of the FSM which states that while FSM citizens are not considered citizens or nationals of the U.S., they are entitled under the Compact to travel and apply for the admission to the U.S. as nonimmigrants without the requirement of visas (Government of the Federated States of Micronesia, n.d.).

### 1.2.2 The Role of Office of Insular Affairs (OIA)

Under the Department of Interior, the Office of Insular Affairs (OIA) is the federal agency that has oversight over the implementation of federal policies for the territories of Guam, Federated States of Micronesia, American Samoa, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands. Each fiscal year, the OIA compiles and submits budgets that consider the economic challenges, cultural resources, and national security which are the foundations of budget justifications for the Insular Areas. Geographically, the islands are naturally vulnerable to the effects of typhoons, rising sea levels, and other disasters that become formidable challenges in the islands' infrastructure, economic development of food, and other natural resource shortfalls. These are critical and real elements that seriously impact the islands' ability to be self-sufficient. The Insular economies are small and isolated, mostly dependent on federal programs and grants as major sources of income.

To compensate for the loss of fiscal resources, OIA assists in confronting these challenges by providing funding to improve quality of life, expand economic opportunities and encourage efficient and effective governance. In the early years of the Compact, funds were distributed in accordance with the agreed upon allocation rather than the standards of federal accountability guidelines. Below is a summary of federal allotments under the COFA Agreement.

Table 2. COFA Budget at a Glance - Permanent appropriations, dollars in thousands.

Compact of Free Association	2016 - Actual	2017 - Actual	2018 Request
Marshall Islands Compact	74,598	76,065	77,278
Federated States of Micronesia	109,176	110,135	111,979

Adapted from "Budget Justifications and Performance Information: Fiscal Year 2018" by the U.S. Department of the Interior. Office of Insular Affairs, 2018, page 102.

In 2017, President Obama approved the 2018 Budget Justification report which recorded a total FSM allotment of \$546.9 million between 2004 and 2018 (U.S. Department of the Interior, Office of the Insular Affairs, 2018). Of this amount, an average of \$110 million was allotted to the FSM for FY2018. This funding was to help empower the Insular Areas in invigorating the economy and to make strides to improve the quality of life. Appendix B details the Federal Compact assistance from 2004 through 2023 for a total of \$2.139 billion.

Public Law 108-188 enacted amendments to the COFA Act of 2003 which included permanent and indefinite appropriations with a long-term objective of financial sustainability through direct financial assistance until 2023. FSM's poor economic performance has caused unemployment to rise triggering an increase in emigration to the U.S., particularly to Guam and Hawaii.

### **1.2.3 FSM Trust Fund Stewardship**

The FSM Trust Funds were created right after the enactment of COFA 2003 to provide economic advancement and financial sustainability to the Federated States of Micronesia by providing a yearly income beyond 2023, with priorities on health and education. The CTF maintains an Investment Policy Statement (IPS) that provides for overall investment guidance and investment options to maximize returns within acceptable limits. The IPS is reviewed on yearly basis, or as needed, as approved by the board. The trust fund was created to enhance FSM's economic growth and sustainability and its economic self-reliance. Performance over and above investment indicators like Dow Jones or Standard and Poor's indices is the targeted goal in anticipation of a higher return of investment portfolio. A trust committee of five members, three from the U.S. and two from FSM, was established to oversee the trust fund's operation,

supervision, management, investments and distribution of the funds. State Street Bank and Trust Company was delegated as Custodian of Funds to keep records, as well as to collect and receive all money owed to the fund. Mercer Investment Management, Inc., has served as Fund Investment Adviser of the Compact Trust Funds since 2005. Any outside money managers that the CTF uses work under the oversight of Mercer. Mercer provides key services to the Fund, including making recommendations to the Committee, producing a diversified portfolio, providing performance indicators and reports, and assisting in evaluating the performance of prospective fund managers. The Fund's auditor, Baker Tilly Virchow Krause, LLP, ensures that annual audits are performed in accordance with auditing standards generally accepted in the U.S. of America and Government Auditing Standards issued by the Comptroller General of the United States. Per the Trust Agreement, funding is to be provided by both governments through 2023. The Trust Agreement calls for the U.S. government to contribute to the fund annually. Between October 2004 and October 2014, an average \$22 million per year was contributed as documented in Appendix J (Baker Tilly Virchow Krause, LLP, 2017).

The Compact funds agreement between the U.S. and FSM is approaching its end. Since the inception of funding contribution to the FSM, the U.S. has contributed a total of \$320 million, which is equivalent to a fair market value of \$466 million as per Mercer's Audit Report of FY2016. The Fund must achieve an average of 8.0% return on investment in order to achieve an estimated 84.5% of FY2023 grant assistance in order to be sustainable after 2023. Unfortunately, since its inception, the Fund has only achieved an average growth of 5.0% (Baker Tilly Virchow Krause, LLP, 2017). This is also summarized in Figure 17 – Projected Growth Trends: FY04-FY23.

### **1.3 Problem Statement**

COFA ends in 2024 and the FSM still has to make big strides to address challenges in enhancing and strengthening required performance reporting and accountability of Compact funds. The U.S. government, its auditors, inspectors, and other stakeholders have been critical of the FSM in two areas: First, in managing its expenditures, particularly in the way it manages contracts to ensure the lowest responsible bidder is awarded bids, and in budgetary control of contracts and general government. Second, in terms of fund management, specifically the U.S. government, where there is an expectation that the FSM government is investing the funds above investment index in anticipation of the weaning off that is to occur in 2023. From FSM's perspective, their fund balance has a dim growth expectation to reach sustainable levels (Trust Fund for the People of the Federated States of Micronesia, 2018).

Furthermore, the FSM holds some resentment for the United States government's insistence on the FSM's adoption of American notions of contract awards that does not recognize cultural, economic, and environmental concerns of the people of the FSM. I will explain more on these specific cultural mores below.

This study explores the degree of the impact of culture in addressing the problem statement and the degree of efficient implementation of stewardship that is needed to (a) address the management of federal funds, and (b) ensure stronger internal control processes for better accountability of Compact funds entrusted to the FSM-Pohnpei government. My research was focused on literature that offered cultural insight on how culture affects the underlying stewardship expectations as required by the Trust Fund agreements.

When governments in Insular Areas like the FSM become a named recipient of federal grant assistance, it signals their commitment to following the U.S. compliance requirements and

standards of accountability and transparency. Recipients of federal grants are obligated to adopt U.S. laws that articulate the standards of U.S constitutional ethics. Compliance audit reports from two sources, the independent financial audit of Baker Tilly Virchow Krause, LLP and the FSM Trust Fund compliance report, both indicated FSM's growing non-compliance with federal grant requirements (Government of the Federated States of Micronesia, Office of the National Public Auditor, 2015). The FSM, and the people the FSM represents, believe that they have met these commitments within their cultural mores that hold high value first, for their environment and, second, for their way of life which seeks to live in harmony with the environment. Good management in the FSM often means keeping contracts local in order to nurture and enrich local communities, but also to reduce the carbon footprint of awarding bids to outside companies that do not understand the necessity of conservation the way the Micronesian people do. This study examines the U.S. government assumptions outlined above, their potential conflict with FSM cultural norms, and areas in which there may be more compatibility than would appear.

### **1.3.1 China Pivots to Aggressively Support the FSM**

China has begun making serious overtures in support of the FSM. This development presents an important aspect of this study given the very real threat that China poses as a stakeholder hoping to replace America as FSM's patron, one which is more than willing to do so with a more flexible attitude towards FSM's cultural mores. China is just four hours' flight to FSM's north; its recent investment in Yap and in Saipan is beginning to draw attention.

With the unpredictability of funding support in Washington extending beyond 2023, it would seem prudent for FSM to prepare for the worst. An increasing relationship with China might provide a welcome cushion to its struggling economy (Matelski, 2016). FSM waters are



abundant in fish stocks that could assist in feeding China's growing population. With the continuous investment into the FSM fishing industries, China has created close business ties with FSM. Chinese fishing businesses now have a vertical monopoly except for a few small local stragglers (Leis, 2012)<sup>3</sup>.

The Chinese government has poured hundreds of millions of dollars into developing an economic and diplomatic alliance with FSM. These funds have been invested into the same economic programs that the Compact Funds are supporting. These Chinese investments are held in a Trust Fund that will eventually help support the FSM when it is likely to be in deficit at the culmination of the Compact assistance in 2023. Chinese funds have also been utilized to pay for FSM officials' travel to China for economic meetings and management training hosted by the Chinese government (Leis, 2012).

On January 4, 2019, representatives of both the Chinese and FSM governments met on board the *KeXue*, a Chinese research vessel, the first in a series of activities to mark the 30th anniversary of diplomatic relations between the two governments. "[*KeXue*] is a research ship intended to be the platform for researchers to study the world's most important marine science concerns," said Professor Wang Fan, Director of the Chinese Academy of Science Institute of Oceanology (Cagurangan, 2019, para. 3).

Figure 5, below, is testimony to the increasing efforts of China to woo the FSM to committing themselves and seriously strike a continued partnership.

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<sup>3</sup> China has continued its effort to expand its fishing business in the FSM's territorial waters. At first, the Chinese business sector provided grants, but the Chinese government saw that there was little investment return and also saw that Micronesian government lacked the financial resources to pay. China then started to target preferential loans that were structured to be paid through collateralizing Micronesian fishing resources. Fishing licenses were then issued to Chinese longline fishing vessels. Footnote 12 eludes to a similar Chinese strategy of debt trap diplomacy that has been made with Sri Lanka where its Hambantota port was taken over due to non-payment of loan commitment (*The New York Times*, 2017).



Pictured Above: Secretary Robert with Ambassador Huang (left) and Director Wang (right) et al.

Figure 5. FSM Officials Aboard the *KeXue*. From Kaselehlle Press, March 19, 2019

There are an increasing number of FSM scholars traveling to study in China and many have returned to FSM and become professionals in the fields of public office, health, education, business and others, further strengthening the FSM-China relationship. Over 120 students have so far participated in the oceanology scholarship offered aboard the *KeXue*. China continues to reinforce its ties with the Federated States of Micronesia through science diplomacy adding a layer to their bilateral relations. The threat China poses will be further discussed in Chapter 6.

## **1.4 Significance of the Study**

There is little known about the impact of culture on implementing a stronger fiscal accountability of Compact Funds. This study is about understanding the history of cultural influences that may contribute to the implicit behavior, conscious values, and trustworthiness of governmental leadership in doing the research, and to identify factors that can strengthen the level of credibility of public financial administration. Hence, this research extends to the study of the stewardship of federal funding in the Insular Areas, specifically the FSM.

This project aims to provide a better understanding of the interplay between the two variables of culture and leadership within the Pohnpeian government in the context of how well U.S. standards on federal fund compliance are implemented in an environment where strong cultural influence may permeate within the governance relative to the stewardship of Compact funds.

A byproduct of this study is the identification of obstacles that contribute to fiscal accountability weaknesses resulting from non-compliance of federal regulations. If addressed, this effort may reinstate withheld federal grants. The U.S. Department of the Interior, Office of Insular Affairs (OIA) report titled “Budget Justifications and Performance Information for Fiscal Year 2018” called for strategic planning and implementation of customized programs that are results-oriented (U.S. Department of the Interior, Office of Insular Affairs, 2018). The programs highlight the need for fiscal stability through initiatives that would allow the insular governments to reinforce their financial and program performance and accountability, improve leadership and stewardship practices, achieve fiscal stability, and thus increase effective program results.

## 1.5 Research Questions

Cultural influences are often manifested in the leadership or governance of component units in the Insular Areas. In an article written by Thomas Matelski (2016) entitled “America’s Micronesia Problem,” he discussed principles and laws of leadership and ethics that could transcend conflicting cultural behavior of leaders in a culturally rich island environment. Part of my research is to seek a better understanding of how the Micronesian culture evolved and possibly explain how culture could influence the manner of stewardship over federal funds. Considerable discretion was exercised in formulating the research questions due to the sensitivity of the study.

The research was embodied in two different segments. The first segment was the survey questions to the public health and education employees. The second segment was the face-to-face interviews with the management of the two departments. The survey questions are documented under Appendices C and D. The face-to-face interview questions are shown in Figure 6, below. The questions were designed to guide the interviewees towards conversational responses that encouraged unrestricted interaction with the researcher. These were open-ended questions that aided in gaining insights to FSM’s present state of accountability that may be able to elicit a plan of action for improvement.

Does culture possibly impact the degree of accountability of Compact funds?
As a leader of the FSM governance, what is/are the expectation/s of the leadership roles that needed to be carried out?
To what extent have the organizational leadership style and ethical orientation affected the ability to adhere to good and trustworthy steward of federal funds?
To what extent are leadership and stewardship contingent upon culture?

Figure 6. Face-to-Face Open-Ended Interview Questions.

The substance of these questions was incorporated in the Likert-Type survey addressed in Chapter 4 on Quantitative Data Analysis and Results. The results and impact of the responses are documented under Chapter 6.

## Chapter 2: Literature Review on Culture and Stewardship

The influx of federal compact funds thru 2023 to sustain FSM's economic programs can open opportunities of asset misappropriations and fraudulent activities that seriously test the Micronesian islands' ability to uphold continuous stewardship. This study explores the correlation between culture and leadership behavior in the FSM. The theory is that culture is the social glue that defines the behavior, common values, codes of conduct and accountability in the governance of entrusted funds. These core values are the beginning of strong leadership that can then evolve into a strong leadership style. Henceforth, the resources of the literature review for this research are from scholarly studies and theoretical assumptions extracted from this research that can alter the perception of governance, stewardship and leadership caused by a culturally rich environment.

According to authors Purnell and Paulanka in their book *Transcultural Health Care: A Culturally Competent Approach*, cultural competency is:

Adapting care as a manner consistent with the client's culture, assisting in viewing individuals, families, or groups within their unique cultural environments and focusing mainly on heritage, communications, family roles, workforce issues, biocultural ecology, high-risk behaviors, nutrition, pregnancy and childbearing, death rituals, spirituality, and healthcare practices (Purnell and Paulanka, 2008).

This phenomenon is best exhibited in the resulting shared values of a society, like a commitment to good governance which influences how persons react to everyday issues and needs.

Cultural differences can impact the way standards are applied since standards are often evaluated based on subjective criteria and is dependent on the surrounding societal environment. To help address this concern, there is a need to be aware of the fundamental views of culture and ethical standards within the Micronesian Islands. Hofstede, Hofstede, and Minkov offered the concept of mental programming in their book *Cultures and Organizations-Software of the Mind* (2010). The authors stated that culture is learned and not innate. It is a collective phenomenon derived from the same social environment distinguishing one group from the other. Such mental programs are derived from the social environment within the family, branching out to the neighborhood, school, workplace and living community. Culture forms the basis of what people regard as the “unwritten rules of the social game” (Hofstede, Hofstede, and Minkov, 2010). Similar social environment is exhibited in the Micronesian Islands starting from their villages, church, place of work and permeating within their societal community.

At the start of each budget year, the U.S. Department of the Interior, through the Office of Insular Affairs, submits budget justifications based on historical performances for the Insular Areas. However, not all allotted budget amounts are received due to challenges in complying with Compact program requirements. Success of federal programs can be at stake, risking the continuity of funds to sustain effective and efficient projects. A summary of stewardship challenges is contained in Chapter 5.

## **2.1 Schools of Thought on Culture**

There are many schools of thought offered in measuring and managing culture. In a scholarly article on organizational culture written by Rehman (2012), the author describes culture in an organization as a set of common values, beliefs and norms common to a collective

group living in the same area influencing the behavior in a workplace. Based on this perspective, the author wrote that performance that is culture-based has the potential to be a valid indicator of the degree of productivity, quality, consistency, and performance measures including education, training skills, stewardship, leadership building attitudes, and other mechanisms that contribute to shaping a behavior in a work place (Rehman, 2012).

This is made evident in the Micronesian cases studied in this dissertation. Local customs that seek harmony through tit-for-tat reciprocation strategies often seem to be beneficial in terms of short-term and long-term social harmony but, in the end, may violate audit standards. The Micronesian work force is small, and when adding the societal intricacy of an extended family environment, it becomes difficult not to entertain reciprocal business practices which border on imprudent practices that can easily lead to instances of federal non-compliance in the management of federal grants.

### **2.1.1 Changing the Cultural Environment: Kotter's 8-Step Model**

John Paul Kotter is a leading lecturer of Leadership (Emeritus) at the Harvard Business School, a New York Times best-selling author, and the founder of Kotter International. He is renowned as a mentor who spearheaded cultural studies in the fields of business, leadership, and organizational change and is best known for his revolutionary 8-step process for leading change. In his book *Leading Change* (2012) he explained that 70% of efforts to orchestrate major change in organizations fail because they do not apply the holistic approach which is needed to see such significant changes through. However, by following Kotter's 8-step process outlined below, business establishments can avoid failure and become proficient in implementing change. By



refining their approach, organizations can increase their likelihood of realizing success (Kotter, 2012).

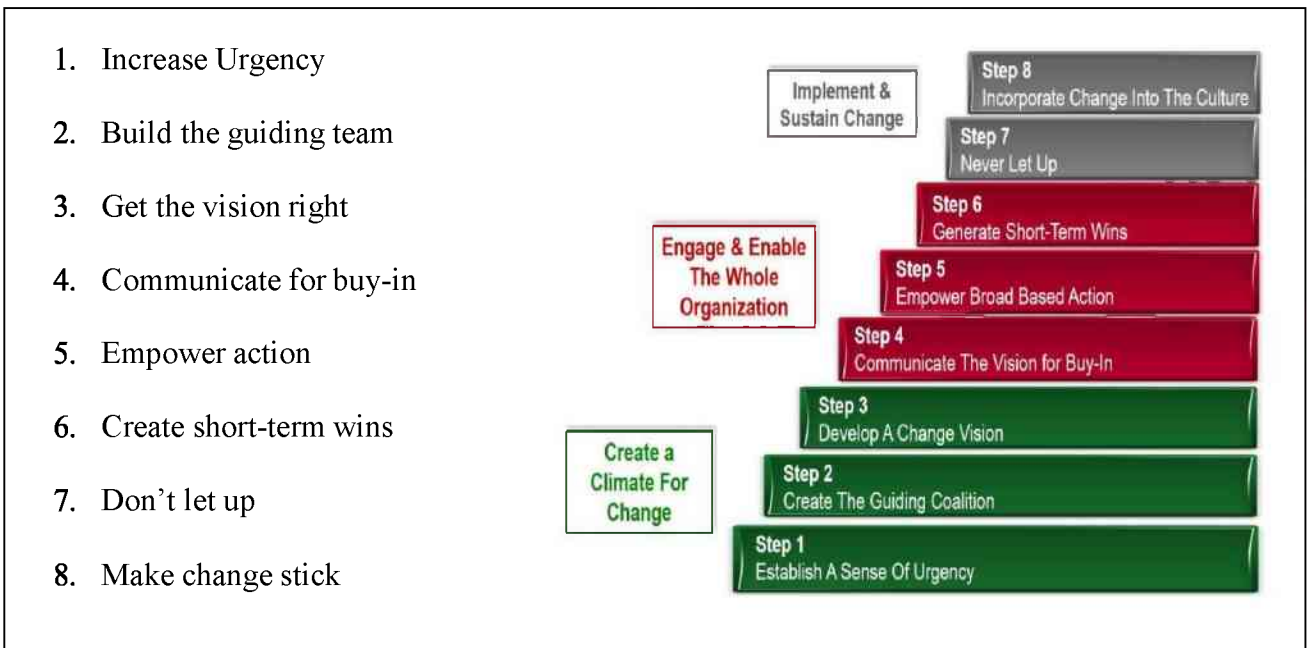


Figure 7. Kotter's Eight Steps to Successful Change.

Adapted from Kotter, J.P. (2012) *Leading Change* Boston NA: Harvard Business Press

In the book *Corporate Culture and Performance*, authors Kotter and Heskett (2011) stated that the causality of two variables can also flow in the opposite direction when behavior and practices are inclined to affect the pattern of one's values. The authors described how shared values can deeply heighten success or can equally become a failed effort in embracing change. Their work provided awareness into how culture can powerfully influence economic performance. Their research included critical analyses in companies like Nissan, Hewlett-Packard, Xerox, and First Chicago which extended their work on quantitative studies of the relationship between culture and performance in over 190 establishments.

Kotter and Heskett's work challenged the widely accepted concept that strong corporate cultures lead to excellent business performance. It was noted however, that shared values and

practices can also include characteristics like arrogance and bureaucracy, which can undercut an organization's ability to adjust to change unless corporate leaders adopt strategies that constantly react to changing and competitive markets.

A healthy organizational culture has the ability to augment accomplishments, employees' sense of job fulfillment, belongingness, and their perception of confidence in resolving difficult situations (Kotter and Heskett, 1992). Kotter further states:

When cultures are our own, they often go unnoticed -- until we try to implement a new strategy or program which is incompatible with their central norms and values.

Then we observe, firsthand, the power of culture in shaping people's behavior (Kotter & Heskett, 1992).

This insight is particularly useful to this study in that it describes behavior in the FSM, explains this type of behavior, and seems ideally suited to predict future behavior. Any models of change identified in this research would need to address this cultural dimension in order to offer the hope of improved success compared with experience.

Kotter's perspective on the effect of shared values being a determining factor of improving success or failure is shared by the work of authors Jarratt and O'Neill (2002) in their article on the effect of organizational culture on business and management practice. The authors posited that culture plays a noteworthy part in contributing to the success of a company and has a major effect on employee behavior. Although it is difficult to say that culture can guarantee success, establishments with strict adherence to ethical culture will have a better chance to achieve a chance of success compared to their counterparts.

This is exemplified in Thailand's cultural identity, showcased in an article appearing in Work in China Forum on Reach To Teach Teaching Adventures Abroad (<https://www.chinese-tools.com/teach/reachtoteach.html>). A great part of Thailand's culture is derived from its strong ethnic influence centering around Buddhist principles. There is a close link between the cultures of the four states of the FSM and Thai culture in many ways. Although Thai traditions and cultures are divided into different subgroups, there is a strong sense of shared traditions and cultural identity. Thai government remains committed to protect and support its sense of national culture and national identity. FSM Respondents A, B, and C shared similar sentiments during the face-to-face interviews, agreeing that culture is an important determinant that explains why people do what they do.

An article on Thailand and U.S. Community Mediation appearing in *Journal of Conflict of Resolution* (Callister and Wall Jr., 2004) discussed close social interaction between family and religion. Similar to the environment of the FSM leaders, the Thailand government leaders also often live in the same place as the villagers and interact frequently in the social arena. It is a generally accepted practice there to use mediation as a tool for conflict resolution in order to preserve harmony and good relations. This practice may appear to cut across the stringent federal rules on stewardship compliance. However, it is considered a less destructive process in mitigating the effects of conflict while at the same time maintaining social balance, which is considered more important than task accomplishment. It can be argued that the influence of mediating a conflict has a much better outcome over strict enforcement of U.S. compliance in that it is more likely that support of government leadership can be stronger as a result of encouraging conflict resolution. This leadership attribute can be perceived as empathy that can

gain trust from the villagers. Empathy is one of the political frameworks of a good political leader as discussed in Chapter 6- Conclusion.

In addition, Callister and Wall Jr. identified that Thai mediators were more willing to use force or threats than their American counterparts. In order to maintain harmony, Thai elders would demand concessions and often found parties willing to make these concessions, because of an implicit understanding that the elder would remember and kept score, if you will, in order to find an opportunity to balance the scales at a later time—though perhaps not in connection with the original dispute. This concept is foreign to outsiders and might indicate a willingness to thwart ethical principles, but through the Thai cultural lens, we see that they interpret this as meeting their ethical principle of harmony. Similarly, the FSM culture may weigh impartiality in bidding against harmony and not fully understand what they gain by abandoning this important cultural more (Callister and Wall Jr., 2004).

Other authors offer a different perspective. In an article on cultural relativism published by Renato Rosaldo, an American anthropologist in the Santa Clara University's Ethics homepage, this author states:

Relativists believe that all cultures should be of equal value and that diversity of cultures, including people with differing moral principles, should not be considered in terms of what is acceptable or unacceptable or moral and immoral, but should be of equal importance when interpreting views on ethics and morals (Rosaldo, 2011).

In his book *Culture and Truth* (1993), Rosaldo argued that culture is somehow connected with immigration issues and further claims:

North American notions of the melting pot make immigration a site of cultural stripping away. Seen from the dominant society's point of view, the process of immigration strips individuals of their enabling them to become American citizens—transparent, just like you and me, people without culture (Rosaldo, 1993, p. 209).

The cultural inclination of societies made up of varied nationalities can become challenging, and at times frustrating, when a person from one culture communicates to another of a different culture. There are several books and articles published that theorize the influence of culture in the workplace. An inability to understand these cultural dimensions can lead to negativity, confusion, dissatisfaction or lack of harmony in a workplace (Hofstede, 2012).

## **2.2 Geert Hofstede's Cultural Dimensions**

Geert Hofstede is a Dutch social psychologist who is acknowledged by many authors for his contribution in comparative studies of cultures (Hofstede, 2012). Hofstede's work introduced the creation of the six dimensions for researchers to compare culture attributes of countries with different cultural orientations. Hofstede's cultural dimensions theory highlights the importance of shared values, beliefs and norms. Hofstede theorizes that in regions rich with cultural taboos and strongly manifested cultural norms and beliefs, determining what is right or wrong can be different from other regions. The author further theorizes that there is no universal method of isolating a phenomenon on cultural dimensions in a societal organization. These dimensions are defined by the manner of interactions in families, school, politics, governments, religion and beliefs in science (Hofstede, Hofstede and Minkov, 2010).

### 2.2.1 Criticisms on Hofstede's Theory

Many arguments, however, do not support Hofstede's work, the most notable being the argument on cultural homogenization. John Tomlinson, author of the book *Globalization and Culture* (1999), criticized Hofstede's theory noting that cultural diversity is reduced, and the strong presence of Western culture dominance tends to underplay the significance and weight of community influences.

Another critique came from Mikael Sondergaard, associate professor in the Department of Management at the Aarhus University in Denmark. He published his notes and opinion on Hofstede's Theory in the International Business Center (n.d.) stating that Hofstede's cross-cultural phenomena were based on a flawed research. He questioned Hofstede's research methodology citing that (a) the survey instruments used were inappropriate to measure culture; (b) the unit of analysis of nations was not suited for the study; (c) one company (IBM) cannot provide information about the entire national cultures; and (d) IBM data is old and obsolete. The sampling techniques in the IBM research failed to represent a profile of the various countries involved in the study. In Sondergaard's article "In My Opinion," appearing in the International Business Center, the author quoted Dr. Brendan McSweeney<sup>4</sup> as follows:

Culture is customs and beliefs, art, way of life and social organization of a particular country. Hofstede study infatuated only on a company and cannot probably evaluate or offer depth to a complete country's culture. Hofstede's differentiation of the country by surveying only IBM Company cannot be justifiable (Sondergaard, n.d.).

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<sup>4</sup>Dr. Brendan McSweeney is one of the many that did not support Hofstede's findings. McSweeney is a full professor and the director of research at the department of accounting, finance and management at the University of Essex, England. <https://www.brand2global.com/speakers/professor-brendan-mcsweeney/>

Sondergaard further states that Hofstede's procedure utilized a constrained survey to describe the values of a specific society or nation. Hofstede's survey questions on culture was administered to a huge sample base without regard to the characteristics of a smaller population.

While these criticisms may be valid, Hofstede's work is one of the most widely utilized resources of research materials among scholars and practitioners, receiving thousands of citations for his efforts in developing a framework of the varied cultural dimensions and relating these to a person's own experiences (Sondergaard, n.d.). Hofstede's Cultural Dimensions Theory (1984) sorts out six dimensions and value perspectives as illustrated in the table below.

Table 3. Hofstede's Cultural Dimensions Model

Dimensions	Low	High
1. Power distance	More Equal Society; encourages equal distribution of power; demands why power bestowed is justified	Stricter hierarchy; acceptance of a higher order; no further justification needed
2. Individualism/Collectivism	Collectivism; closely connected family	Individualism; loosely knit social framework
3. Femininity/Masculinity	Priority: Nurturing; femininity; teamwork; nurturing those with no strength to assert what is right	Priority: Power; masculinity; achiever; asserts what is fair; material benefit when successful
4. Uncertainty/Avoidance	Ambiguity: Happy; not uptight outlook; practical needs over standards	Ambiguity: Anxiety; strict rules of conduct; not very willing to make compromise; unconventional ways
5. Orientation	Priority: Short Term; societies strongly inclined towards establishment of absolute truth	Priority: Long Term; pragmatic approach; encourages frugality and efforts as a way of preparing for the future; society searching for virtue
6. Indulgence	Indulgence = Bad	Indulgence = Good

Adapted from *Culture's Consequences: International Differences in Work-Related Values*, 2nd ed, by Hofstede, G, 1984.

I have chosen four countries to analyze their cultural dimensions based on Hofstede's theory namely, Denmark, Malaysia, and Philippines, all varied cultures to compare with the U.S.

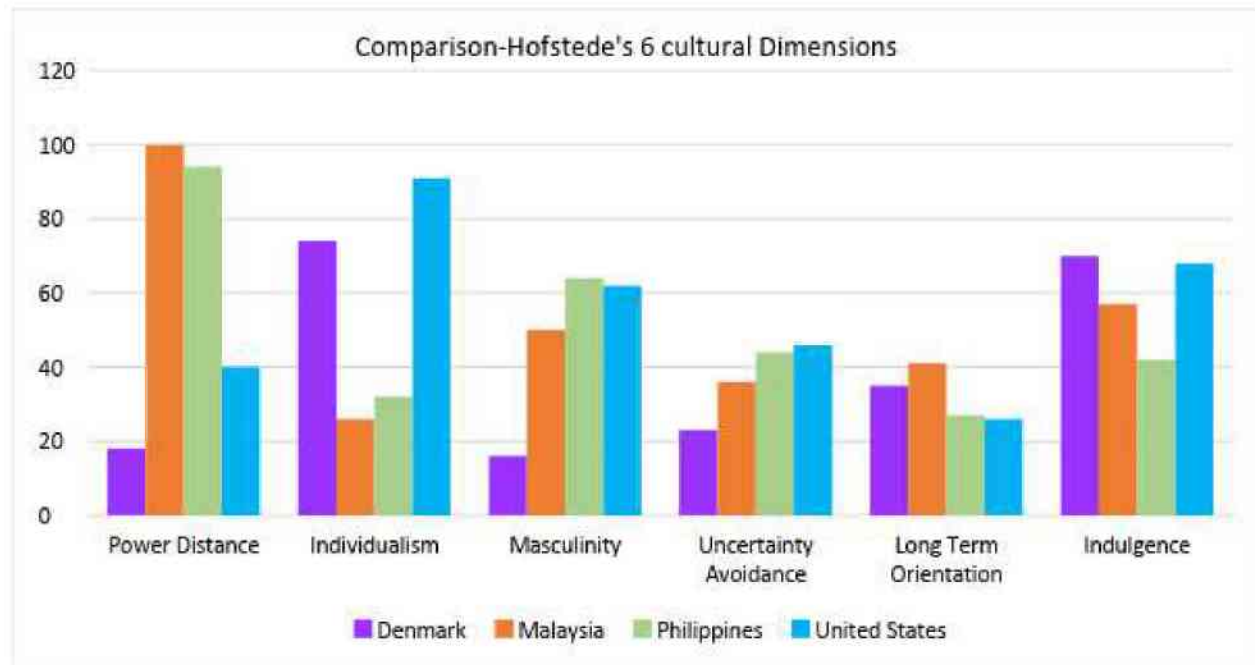


Figure 8. Comparison of Cultural Dimensions: 4 Countries Chosen.  
Source: Hofstede Insights, n.d. "Compare Countries"

An awareness of the meaning of the scores for each of the six dimensions provides a comprehension of the effects of the cultural tendencies of a country. For purposes of this discussion, Denmark has an overall low dimension average, and was chosen to compare to the U.S. Denmark has a Power Distance Index (PDI) of 18, which suggests a rejection of unequal treatment among its subjects. Denmark has a score of 77 on Individualism suggesting that people are expected to be self-sufficient and self-reliant. Denmark is considered as a feminine society where people are nurturing, cooperative, and with priority of caring for the weak, scoring a 17 on Masculinity. Denmark has an Uncertainty Avoidance score of 21 and is accepting that its subjects are not resisting any introduction of change or new concept. Denmark has Long Term Orientation score of 28 with inclination to seeking the absolute truth and highlights the old



school of practicing tradition to the culture as part of its strength as a nation. In summing up the scores, Denmark scores high at 65 proving itself as a lenient and tolerant society. In other words, Danes are willing to indulge individuals in terms of unique perspectives, diversity, and unusual life choices. In comparing the U.S. and Denmark, there is a similarity in respect to long term orientation, indulgence and to a certain extent, individualism.

With a score of 61 over Denmark's 17 on masculinity, the U.S. has a far more masculine culture in respect to power, achievement, assertiveness and material rewards.

## **2.3 Power Distance and the Spread of Power in Asia and Oceania**

Michael Edwards, a U.S. professor at Thongsook College-International Program, completed a course book on *Hofstede's Power Distance and Intercultural Communication in Thailand* (2015). In reading Hofstede's research on the six dimensions, the classification of power distance appears to have the broadest divergence resulting from cross-cultural relationships. Edwards defined power distance as: "the extent to which the less powerful members of organizations and institutions accept and expect that power is distributed unequally" (Edwards, 2015, para. 2). In a scholarly article written by Chris Smit in the journal *Culture Matters*, Smit wrote: "The dimension that matters most in cultural differences is claimed to be the Power Distance, the cause of up to 89% of cultural friction" (Smit, 2012). As I will demonstrate below, the regional influences include a history of colonialism that still fosters

cultural mores that are supportive of high PDI's in comparison with the U.S. This is important in understanding why the FSM application of the U.S. government's rules have been so different from expectations.

Kate Sweetman, designated guru in the field of leadership by the *London Times*, is a regular contributor to the *Harvard Business Review* and a seminar speaker to many corporations. Sweetman has co-authored a management book *Leadership Code: Five Rules to Live By* (Ulrich, Smallwood, and Sweetman, 2009) and other articles, including "Is Ethnicity a Barrier to Growth in Asia?" (2012a), and "One Talent Strategy Isn't Enough in Asia" (2012b). In her article "In Asia, Power Gets in the Way" (2012c), she wrote that the real culprit is the self-esteem issue that seems to result from a deeply rooted corporate culture tracing back to the influence of Spanish and American colonialism that controlled who were leaders and who were "commoners." The author claims that this cultural phenomenon is endemic to Asian regions and is difficult to shift.

Table 4. Examples of Low PDI versus High PDI

Low PDI	High PDI
Individuals exercise self-reliance over the holder of authority like parents; supervisors, teachers; self-starter, often looked up as the leading force	Individuals are dependent on power holder; subordinates not expected to take initiative but would rather wait for instructions before acting; little empowerment
Management hierarchy not easily accepted	Hierarchy is expected; it is good, and it is normal
Equality is favored; "what goes for you goes for me"	Special privileges for people of power; accepted; not contested
Open door policy of management; easily approachable	Chosen gate keepers usually the power holders; have status of not approachable; avoid people who have no power
Countries under this group: Netherlands, Denmark, UK, USA, Germany	Countries under this group: Belgium, France, Malaysia, Philippines, the Arab countries

### **2.3.1 Comparison of Power Distance Dimensions between FSM and the Asian**

#### **Regions**

The Caroline Islands are in the western section of the Pacific Ocean, and the FSM are nestled in the eastern part of the islands. The Caroline area was named *Nuevas Filipinas* or New Philippines resulting from the colonization of the Spanish East Indies. Governance was maintained from Manila (About the Federated States of Micronesia, 2012). The same colonial powers inhabited the FSM for many years (See Chapter 1). Given this, it is not surprising to see similar cultural mores shared throughout this region.

The unequal distribution of power is perceived by lower ranking society members as a norm in a high-power distance nation. Asian countries like the Philippines have a high PDI of 90 compared to Denmark at 18 or the U.S. at 40 as documented in Figure 8. Contributing to this high PDI in an Asian society is the culture's importance for emotional closeness to family, high value for loyalty, respect for authority, and hospitality (Working with Filipinos and the Power Distance Index, 2014). Asian culture has a close likeness to Micronesian culture, with both cultures strongly influenced by the same colonizers like Spain, Japan, and later, the U.S. Post colonialism family values, religious orientation, and working environment are therefore shared and the societies' levels of inequality are accepted, expected and supported by the inhabitants as much as by their leaders. There is no documented PDI for Micronesia but based on the closeness of culture, Micronesia would be expected to have a similar PDI as the Philippines, and this assumption is used throughout this study.

### 2.3.2 Etic and Emic

The history of *etic* and *emic* dates back to 1954 and linguist Kenneth Pike. Pike coined these approaches arguing that the device for identifying linguistic behaviors can be used as a means to isolate human social behavior whether subjective or objective. It was opined that cultural insiders and outsiders have equal ability to produce accounts of *emic* and *etic* characteristics of their culture. The study identified attributes of *etic* as an outsider account of the setting, and *emic* is identified as subjective or insider account (Headland, Harris and Pike, 1990).

In an article in the *Journal of Advanced Nursing*, Spiers (2000) discussed the *emic* and *etic* of perceiving the behavior of people and how individuals are molded by their philosophies. *Etic* view takes the approach of an outsider's perspective looking in. *Etic* perspective is data gathering from the outside with resulting questions posed by outsiders. Some anthropologists often consider this method as preserving or avoiding a change in the culture being studied by direct interaction. One setback from this perspective is that the subject may tend to act differently in the process of being studied; thus, it may become difficult for an outsider to gain access to the true meaning behind the culture. *Emic* perspective on culture on the other hand, means looking at the culture through the perspective by a participant of that culture. An example of this is when one is born and brought up within the culture, enabling one to socialize and gain an opportunity to explain the experiences providing motives for one's or another's actions.

*Etic* perspective accounts for the conduct or conviction by a scientific observer that can be applied to all other beliefs while *emic* accounts for the behavior or belief that comes from a person within the culture. When combined, these two perspectives can generate a richer view of culture that can be better understood. An *emic* style would tend to struggle in applying the

overarching values of a specific philosophy, whereas *etic* would be helpful only at the perspective of a researcher applying observations and see more than one characteristic of culture (Peoples and Bailey, 2015).

In a more in-depth literature review, the publication *Emic and Etic: The Insider/Outsider Debate* (Headland, Harris and Pike, 1990) chronicles the November 1988 invitational session sponsored by the American Anthropology Association on the dialogue between Kenneth Pike and Marvin Harris who have each written over 250 articles and 25 books about the subject. As stated, Pike was an American anthropologist and linguist who fathered the terms *etic* and *emic*. Harris, also an American anthropologist, was a prolific writer who was highly regarded as a contributor to the advancement of cultural materialism. This theoretical development was considered a critical event in American anthropology in its time. According to the excerpts of the debate, the ideas of these two leading theoreticians were so different, yet both shared an emphasis on human behavior. Both agreed that although their different approaches will lead to unavoidable conflict and disagreement, there is a need to explore their differences and conflicts and accept that diversity and change in culture are inevitable.

The idea of an *etic* and *emic* viewpoint greatly influenced the methodology of this study. Specifically, the pilot study surveys were given to students of which 50% of the population were native to the FSM; and, the follow up interviews, were conducted with FSM government employees who were mostly native to the FSM. As “insiders,” I assert in my methodology that this population will produce valuable insights into the possible reasons for the developing conflict between the FSM and the U.S. government over the administration of compact funds.

One economic model that supports these notions of the importance of regional and cultural mores is that put forth by the late Elinor Ostrom who won a Nobel Prize in economics

for her work. In her book, *Governing the Commons*, she showed that across time and space, the best way to ensure sustainability of Common-Pool Resources (CPR)<sup>5</sup> was to allow regional and local interactions in what she called a “polycentricity” of local actors to develop systems of governance. In all cases, Ostrom and her team found these arrangements to be superior to a centralized government actor handing down dictates from afar. The reason local/regional arrangements are better? Primarily, because these local actors have better information, better understanding of the problems, and a high motivation factor since any actions taken directly impact their interests. Ostrom found this to be true in game management in Medieval Japan, irrigation system governance in Spain just after the post-Moorish defeat (post-1492), and in modern Los Angeles with the threat of sea water intrusion to the local water table (Ostrom, 1994). The centralized system’s role is that of oversight, but policy formation and organizational management are local considerations. As long as local organizations find ways to manage the CPR in a sustainable manner, the centralized structure of governance maintains a distant observer that rarely, if ever, interferes in policy or day-to-day operations (Ostrom, 1994).

Ostrom’s work confirms in the case of FSM’s management of the CTF, that because this “permanent fund” operates in much the same way as do Common-Pool Resources (CPR), they are both collectively owned, but can only be sustainable if managed in an efficient and prudent manner. What Ostrom predicts is that the outcomes will be better if the centralized government pushes authority for policy and operations to the lowest level possible while being held to a standard that preserves the CPR.

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<sup>5</sup> Common-Pool Resources are those environmental factors that are collectively owned, abundant, but experience diminished capacity when unmanaged or undermanaged, due to the “tragedy of the commons” where some will over-harvest (hunting, fishing, etc.) or over-pollute, which harms the resource to the point where it has difficulty recovering.

## **2.4 Summary**

My literature review has touched on the many facets of culture from various schools of thought. My research has taken me to study the cultural influences on what people do and why they do it. My long career as a government auditor was much concentrated in the pursuit of implementing federal compliance specifically in the remote areas of the Insular Areas. Unique customs and traditions of auditees in culturally rich environment can give rise to conflicts with U.S. standards of accountability. My study explored whether there was a connection between FSM culture and the ability to exercise good stewardship over the management of U.S. Compact Trust Funds.

FSM's Compact agreement with the U.S. is set to terminate after 2023, but FSM's economic dependency on U.S. funds will continue. When the FSM federal assistance stops, the question would be whether FSM is ready to tackle self-sufficiency. As a secondary issue, this gives rise to the uncertainty of the role that China will play in this significant change of relationship between the FSM and the U.S. government. While this paper is not meant to study this possibility, it cannot proceed without acknowledging these issues. A major question of this research is whether cultural mores hold promise in identifying a potential path to assist in changing the trajectory of governance, which will make way for a more transparent accountability. I argue in Chapter 6 that this is possible with some slight changes to the way bidding and accountability is viewed with acknowledgement of cultural values, such as family, harmony, a concern for the environment, and a preference for a low carbon footprint which local sourcing favors.

To start off my research, it was important to structure the method of inquiry in collecting my research data. I have lived in and visited FSM while doing audit fieldwork in the 1990s and have a familiarity with the manner of governance in the islands. A descriptive research design was developed from a phenomenological philosophy, because it seemed appropriate to gain understanding of an individual's motivations and courses of actions. This approach is concerned with the study of experience and personal knowledge from the point of view of an individual as it is actually "lived." The next chapter discusses the research methodology I used in this research.



### **Chapter 3: Research Methodology**

This study used a convergent parallel design, which is a merged data analysis strategy where a side-by-side comparison is done presenting the qualitative and quantitative results followed by discussions confirming or disconfirming the results (Creswell and Clark, 2011). The two methods are prioritized equally keeping the data analyses independent from each other.

Combined results are then interpreted, and the study looks for convergence, divergence, contradiction or other relationships from the two sources. The purpose of utilizing this methodology is to investigate the various strengths and weaknesses of quantitative methods (e.g. large sample size, trends, generalization) with those of qualitative methods like smaller sample size, specifics, or deeper analysis (Patton, 1990). This approach of converging different methods is discussed at greater length in many literature reviews (Brewer and Hunter, 1989; Jick, 1979).

Qualitative researchers look for better understanding and explanations with the aim of developing a degree of generalization that would contribute towards building a theory. Qualitative research is holistic in nature with flexible guidelines and allows for the personal views of researcher to be invoked. Researchers make specific observations and interpret inferences about a phenomenon where data are analyzed in a subjective manner. The substance of data collection depends on the researcher's personal participation or experience in the chosen research setting. This can be potentially biased since personal views can be infused in the observation process. Data is collected from a smaller sample size applying loosely structured or non-standardized methods of observations and interviews, usually done face-to-face. Qualitative approaches tend to ask what and why to address human meanings and issues. This method looks at attributes that cannot be reduced to numerical values and are often exploratory in nature.

In contrast, quantitative approaches ask how and how much and are expressed numerically. This approach involves looking at the correlation of amounts or quantities present in variables of interest by utilizing commonly accepted measures of behavior or attributes. Quantitative researchers look for explanatory predictions to validate relationships that contribute to existing theories using objective criteria to evaluate the outcome. Quantitative researchers rely on predictive analysis. This type of approach confirms and validates a theory based on established guidelines, predetermined methods, and known variables. Data collected are numeric in nature representing a larger sample using standardized instruments of measurement. Collected data involves statistical analysis stressing objectivity and deductive reasoning. Researchers have a detached view with a formal and scientific style of communicating the findings. Combining these two methods results in a mixed methodology where a researcher can learn more about the subject of study. Ultimately, the decision on the approach to choose is driven by the research problem (Leedy and Ormod, 2013).

The popularity of the third approach, the mixed methods design, emerged in 2010 when researchers found it was a more accessible way of inquiry combining quantitative and qualitative methods. This is often referred to as the third research paradigm (Creswell and Clark, 2011). Researchers try to distance themselves from the participants so unbiased conclusions can be drawn. In the book entitled *Designing and Conducting Mixed Method Research* co-authored by Creswell and Clark (2011), emphasis is laid on the accepted practice of mixed methods as means of securing varied perspectives of the phenomenon that is being researched. The growth and interest in utilizing the mixed method approach has considerably accelerated in recent years. However, the mixed methods approach was plagued with controversy.

In the article “Critique on Experimentalism” by K.R. Howe (2004), the use of mixed methods was challenged as the author claimed this method tended to give more privilege to post-positivism<sup>6</sup> thinking and marginalized qualitative interpretive approaches. His concern was towards technical studies on experimental research that are highly measured quantitatively leading to a more prominent role of an explanatory approach and lesser role to exploratory, interpretative research. This framework minimizes or limits the interpretative role that should include voices and dialogue with stakeholders. Another voice came from L.S. Giddings (2006) from New Zealand on an article on positivism. Giddings critiqued the use of mixed method to discuss the ongoing hegemony or domination of positivism, forcing the dominance to become the accepted norm. The mixed method is utilized as a “quick fix” in response to economic and administrative pressures. Freshwater (2007) expressed a concern that mixed method approach lacks specific guidance when a researcher comes to a crossroad in deciding what mixed methods design should be adopted.

Numeric measures are developed, tested, verified and refined to understand the relationships of variables. To explain the survey results, this researcher then utilized qualitative method, shifting the stance to more of constructivist perspective. This process builds a better understanding than that of a simple survey. Open-ended questioning was used focusing on the specific context like culture and leadership. A mixed methods approach requires more of a researcher’s time than strictly just a qualitative or quantitative approach. This method offers a more extensive interpretation of the research with both qualitative and quantitative aspects complementing each other. Mixed methods can also make more convincing conclusion through

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<sup>6</sup>Post-positivism is often related with quantitative attributes based on cause-and-effect thinking focusing on detailed observations and measures of selected variables (Howe, 2004).

triangulation that can facilitate a more powerful technique in validating the data (Creswell and Clark, 2011).

I traveled to the island of Pohnpei to conduct the Likert-Type survey and interviews with the leadership of two departments, National Department of Education and National Department of Public Health. Pohnpei is where the FSM national government offices are located. Two data sets were collected concurrently and analyzed separately. These two departments were chosen because they receive the highest federal assistance. The collection of data using the Likert-Type survey was done concurrently with face-to-face interviews. It took three days to coordinate the completion of the two surveys. Meanwhile, I utilized this break to perform my face-to-face interviews with the leadership of the two departments. The concurrent timing in implementing both the quantitative and qualitative strands proved to be efficient in gathering the information needed to perform my data analysis. In Creswell and Clark's Chapter 3 page 66 of their book *Designing and Conducting Mixed Methods Research*, they articulated: "The independent and interactive relationship of these mixing strategies integrated at a point of interface where mixing occurred during the data analysis" (Creswell and Clark, 2011). The two data sets from the Department of Education and Department of Public Health were collected and analyzed, then merged during the final step of the research process. First, I quantitatively analyzed the data from the survey conducted using the factor analysis process, then I related the inferences to the qualitative strands gathered from the face-to-face interview process. Conclusions were then drawn from the transformed data. This convergent parallel design is illustrated below.

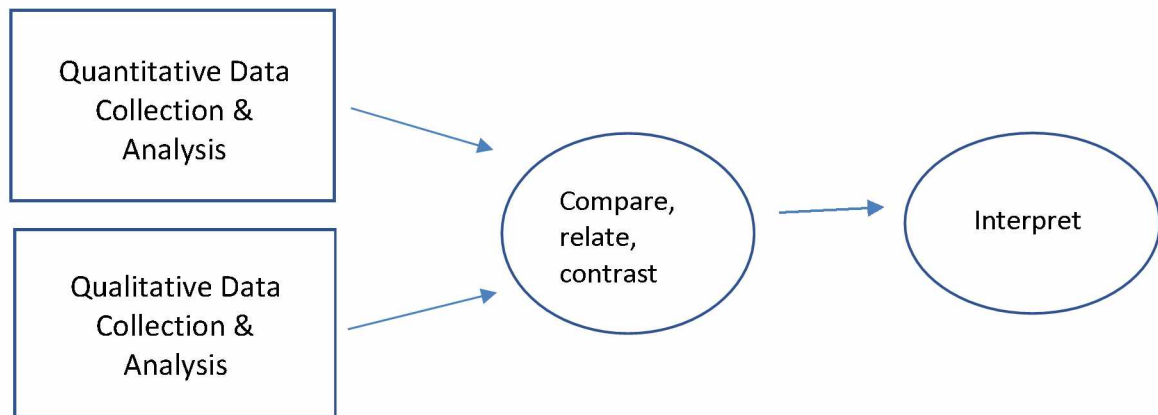


Figure 9. Convergent Parallel Design.  
From *Designing and Conducting Mixed Methods Research* by Creswell and Clark (2011)

The results of the survey questions relative to stewardship, leadership and culture are discussed concurrently with the Factor Analysis results under Chapter 4. The results of the data analysis under the Factor Analysis-Component Matrix were narrowed within the context of Culture-Ethics and Leadership-Governance attributes over the accountability of federal Compact funds. It should be noted that the survey participants from Public Health and Education were selected using the SSI software based on the high amount of federal grants received. SSI software was utilized to analyze the Likert-Type survey questions (see Appendices C and D). It should also be noted that some participants were known to me as their prior auditor representing a public CPA firm engaged to audit the FSM federal grants compliance and financial reports.

### 3.1 Data Collection Tools

I have lived in Guam for the last 20 years. This has given me an advantage and valuable insight into the culture and governance in an Insular Area environment to embark on the subject of my research, the Federated States of Micronesia. Having lived the phenomenon, I had a

clearer understanding of the data being collected and analyzed. Converting the data into a readable document that is easily understandable was much simpler. Figure 9 below outlines the data collection plan that guided me in the completion of my research process.

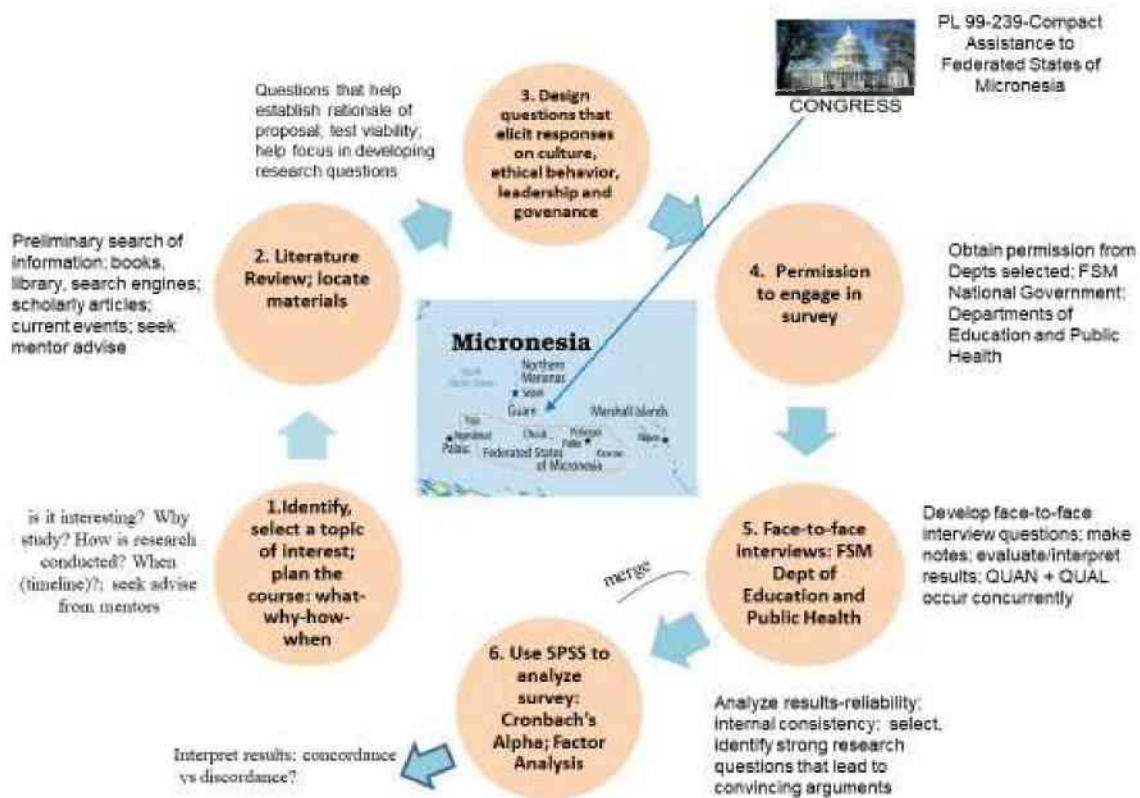


Figure 10. Data Collection Plan.

Steps 3 through 6 involve processes directly administered to the respondents specifically tailored to gathering responses on how culture affects the manner of implementing stewardship and accountability in daily work. The data collection incorporated face-to-face interviews and the Likert-Type surveys concurrently.

### **3.2 Face-to-Face Interviews**

Interviews involved verbal communication between me as researcher and the participants. The interview was an unstructured, oral conversation with the purpose of obtaining information on culture and accountability by asking the face-to-face interview questions (see Figure 6). The topics raised blended issues concerning cultural sensitivity, governance, stewardship and ethics. My work experience conducting FSM audit fieldwork taught me that researching culturally sensitive topics in an insensitive manner is unlikely to yield valid results and consequently would pose a dilemma. My experience also taught me that cultural sensitivity is foremost to be considered in the interview process to ensure that the participants are treated with courtesy, respect, and dignity as they manifest their opinions. It should be noted that this consideration is contrary to the guidelines of compliance audits that strictly follow the U.S. uniform guidance requirements where auditors are precluded from giving weight to opinions. This research gives weight to the value of these opinions insofar as attitudes and opinions affect how offices comply or fail to comply with federal standards.

The interviews were planned to be structured; however, the interviewees expressed difficulty and discomfort in expressing their views in a structured manner due to the sensitivity of the subject matter. The interviews were then changed to unstructured questions which made the interviewees more comfortable. At all times, the interviewees participated without coercion with fully informed consent that the questions were culturally relevant in the manner of FSM governance. The interviews centered around the leadership of two departments namely, the FSM Department of Mental Health and Human Services and the FSM Department of Education. Separate interviews were done. The interviewees did not wish to be recorded which made the data gathering process difficult. During the interview session, this researcher often needed to

change specific wordings of the questions to soften the interview conversations and put the interviewees at ease. The interviewees were allowed to expand their responses and share their experiences giving them sufficient time to respond. This interviewer maintained a neutral attitude while asked probing questions to gain clarity and minimize ambiguity. A face-to-face interview is crucial as it includes the observation of non-verbal qualities not captured through online like observation of behaviors and emotions of interviewees thus making the data collection more accurate and reliable.

### **3.3 Challenges in the Interview Process**

For qualitative research such as my dissertation, maintaining the confidentiality of the interviewees while documenting rich and specific details of the interviews presents distinctive discretion tasks during the encounter with interviewees. My research involved conducting a study on the FSM departments of public health and education. An employee of either department could possibly be recognized given the extensive portrayal of the environment that may result in the infringement of confidentiality through deductive disclosure. Deductive disclosure, also known as internal confidentiality, happens when the behavior of a person or a group of persons makes it distinguishable or recognizable in a study (Sieber, 1992). The researcher is then faced with a dilemma of protecting identities as expressed in author Kaiser's work published in Sage Journals "Protecting Respondent Confidentiality in Qualitative Research" (Kaiser, 2009).

The emphasis on protection from harm is consistent with The Belmont Report's principle on beneficence. The term "beneficence" as used in this research refers to actions beyond the normal responsibilities of a person like extending acts of goodwill, generosity or consideration.



The Belmont Report principle states: “Persons are treated in an ethical manner not only by respecting their decisions and protecting them from harm, but also by making efforts to secure their well-being (Belmont Report, 1979).

The National Research Act of 1974 required the formation of the Protection of Human Subjects of Biomedical and Behavioral Research to ensure that the standards of ethics in conducting behavioral research on human subjects are adhered to (National Research Act, n.d.). The Belmont Report was then written, calling for established procedures to safeguard the integrity of research processes ensuring that these are performed according to these guidelines (The Belmont Report, 1979). The report lists three basic ethical doctrines that guide general judgments and justifications in the evaluation of human actions, namely:

- Respect for persons - endorsing freedom of selection of action, including rendering own opinion.
- Beneficence – treating people ethically by respecting their decisions, ensuring they are protected from any maltreatment or injury.
- Justice – committing to fairly distribute benefits and burdens. The question should be whether the person has been unfairly compensated or has been unjustly denied something important to him or her.

### **3.4 Conducting the SSI Survey of the Two Departments**

While conducting the survey, the participants were guaranteed that the results of the survey would be kept confidential. The surveys were done online using a statistical survey sampling software. The following statements were adapted from the SSI (Scientific Software International, n.d.). These were explained and indicated in the first page of the survey questions:

On Anonymity. All survey responses recorded are anonymous. Data from this survey will only be reported in the aggregate. You do not have to give your name or reveal any information which makes you directly identifiable. Only demographic data such as gender, age, and educational attainment are requested for purposes of comparison with other insular area islands. We ask for your assistance in providing this demographic data.

On voluntary participation. You can withdraw at any time if the survey questions do not make you comfortable.

On Confidentiality. This survey data will not be used individually but as a group to perform statistical data analysis. The analysis will not contain data that would identify you.

The entirety of the explanation to participants in conducting the Cultural Leadership Survey is documented in Appendix E.

There were nine questions in the Likert-Type survey (See Figure 13) with the following measurements:

Table 5. Likert-Type Survey Scale and Coding

Scale	Code
Strongly disagree	1
Disagree	2
Agree	3
Strongly agree	4

There was a total of 50 participants, 25 from each department. Participant survey responses utilized the SSI, a data analysis software. Survey results are documented in Appendix C and D. The quantitative data analysis and results are documented in Chapter 4.

## **Chapter 4: Quantitative Data Analysis and Results**

In my convergent parallel design, the qualitative and quantitative data collection tools were administered simultaneously to two departments: FSM National Department of Education and FSM National Public Health and Social Services located in Palikir, Federated States of Micronesia. The data collection was conducted concurrently, prioritized equally and interpreted independently. Questions asked during the face-to-face interviews paralleled those in the Likert-Type surveys.

A Statistical Package for the Social Sciences (SPSS) software was utilized to process quantitative data to generate the Reliability Analysis for the Cronbach's Alpha and the Dimension Reduction-Factor Analysis for the Rotated Component Matrix. This chapter outlines the steps taken in the quantitative data analysis and the results thereof.

### **4.1 Participant Demographics: Gender, and Age**

There were 25 participants from each of the departments, for a total of 50 in the study. The sample size was relatively small and not likely to have sufficient or strong power for a satisfactory factor analysis. The analyses were performed for the sake of comparison. Data collected also included the demographics of gender, age group, educational level, and ethnicity. These demographics helped in disaggregating the awareness and familiarization of the survey environment of the two departments.

Table 6. Participant Demographics

Variables	Public Health (n=25)	Education (n=25)
Gender		
Female	51%	52%
Male	49%	48%
Educational level		
Some college	50%	48%
Bachelor's Degree	35%	39%
Postgraduate	15%	13%
Age		
21-30	31%	13%
31-40	30%	26%
41-50	26%	52%
51 and over	13%	9%

The gender distribution was closely similar between the populations of both departments. On average, the demographics on age showed those in Education were slightly older than those in Public Health, with age for employees in Education concentrated between 31 and 50 accounting for 78% of the population while age for employees in Health concentration was between 21 and 50 representing 87% of the population. Employees of both departments consisted mainly of those who have bachelor's degrees and a few Master's degrees.

## 4.2 Ethnicity

The ethnicity distribution for each department is shown in Figures 11 and 12 demonstrating that most participants were Pohnpeian in both departments while the remainder of participants' ethnicity varied across the departments. During my visit to the two national offices, I observed a friendly and lively interaction during work breaks among the employees of various ethnicities, indicative of a happy workforce. A consistent behavior pattern of a healthy and positive working environment reduces conflict in organization, where employees feel a sense of safety and belonging that have a measurable effect on employee morale (Tsai, 2011).

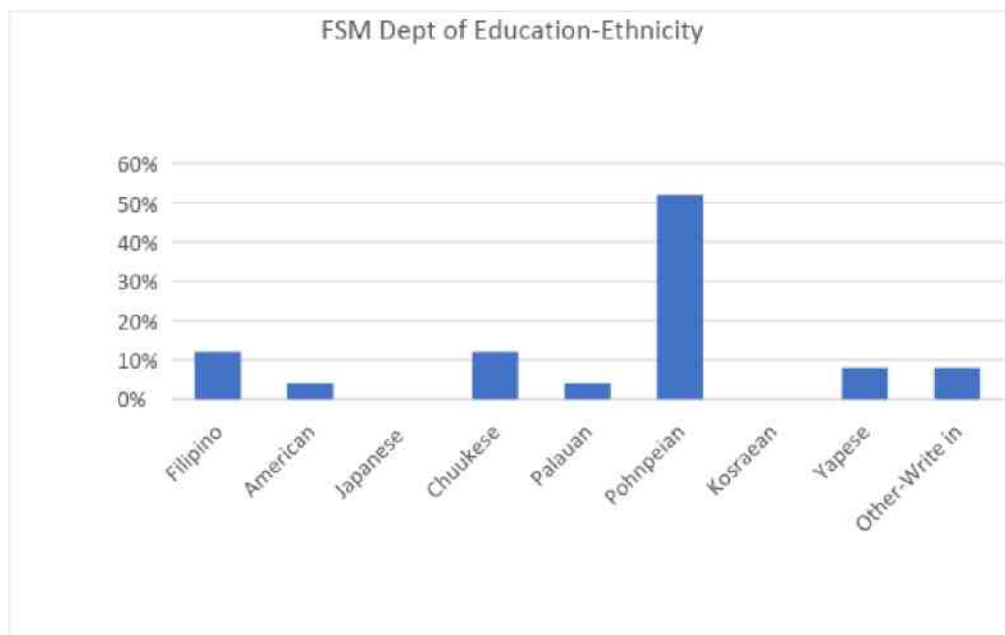


Figure 11. Participant Ethnicity – Department of Education.

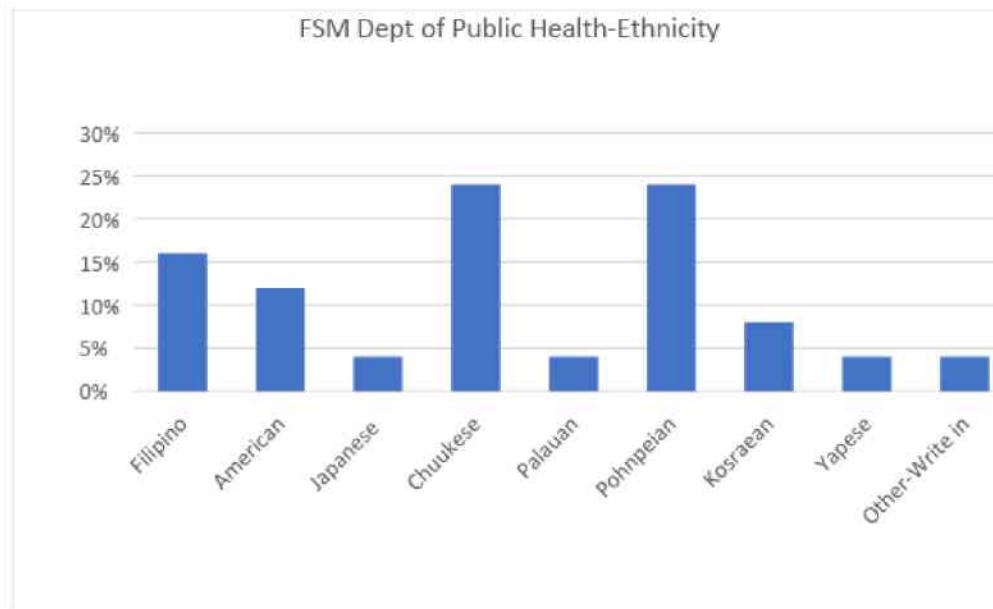


Figure 12. Participant Ethnicity—Department of Public Health.

#### 4.3. Coding the Measurement

The survey consisted of nine questions related to culture, leadership, ethical standards, and stewardship. The questions were administered in a Likert-Type scale survey where the measurement was coded (see Table 5).

- Q1. In our island, people are expected to follow the requirements of Federal or State laws before considering their own personal, cultural, and moral.
- Q2. In our island, cultural forces influence the behavior of an individual in his/her role as a steward of federal grants.
- Q3. There is a strong presence of culture driven leadership that impacts the manner of stewardship of federal and State funded programs.
- Q4. Education attainment contributes to cultural diversity and can affect responsiveness to ethical standards
- Q5. In our island, leaders strictly follow the ethical standards of their profession even though these conflict with their own personal ethical standards.
- Q6. In our island, the first consideration is whether a decision violates any laws or ethical standards before considering profits.
- Q7. The most important trait for a successful governance of federal grants is following the compliance requirements even though these conflict with the island's perception of what is good for the local community.
- Q8. I have faith in the leadership capabilities and stewardship commitment of my island's leaders.
- Q9. I am happy to work in an office under the control of my island's government leaders until I retire.

Figure 13. Nine Likert-Type Survey Questions

#### 4.4 Data Summary – Descriptive Statistics and P-Test Analysis Results

J. Robert Warmbrod, a University Professor Emeritus at the Ohio State University, wrote an article on “Reporting and Interpreting Scores Derived from Likert-Type Scales”. He stated: “It is appropriate to list the statements that define the uni-dimensional construct and record the percentage of participants choosing each response option” (Warmbrod, 2014). The results for each attribute on the scale will detail the composition, the course, and the concentration of each item’s influence to the sum of the subscale score by calculating the mean, after which a reliability coefficient is cited.

The Likert-Type scale for the nine questions produced the following average scores from the respondents of each department using the Excel Data Analysis function.

Table 7. Calculation of Means and Standard Deviation: Education and Health

Question	Education		Public Health		Difference in means
	<i>Mean</i>	<i>SD</i>	<i>Mean</i>	<i>SD</i>	
1	2.80	1.00	2.92	1.08	-0.12
2	2.92	0.91	3.14	0.98	-0.22
3	3.08	0.86	3.16	0.90	-0.08
4	3.20	0.82	3.28	0.84	-0.08
5	2.72	0.84	2.84	0.94	-0.12
6	2.92	0.86	2.96	0.89	-0.04
7	3.40	0.91	3.36	0.91	0.04
8	3.16	0.90	3.08	0.86	0.08
9	3.28	0.94	3.16	0.90	0.12

The resulting scores for both departments were closely similar with insignificant differences in the means of each question. The T-Test Two Sample Assuming Equal Variance was utilized to further determine the significance between the means of the two departments. A t-test is normally utilized to test an assumption of equivalence applicable to a population. It is the ratio of the difference between the mean of the two sample sets and the difference that exists within the sample sets compared to the variation. High t-value, also called t-score, means that material differences exist between the two sample sets. In Jim Frost's newest book, *Regression Analysis: An Intuitive Guide for Using and Interpreting Linear Models*, he posits that a lower t-value suggests there is more resemblance between two sample sets (Frost, n.d). Based on the resulting insignificant differences, the two data sets were then combined into a single data set taking a holistic approach in the calculation of p-values, Cronbach Alpha and Factor Analysis by



utilizing SPSS. SPSS is a sophisticated, well-known program widely utilized by market studies, health studies, education studies, survey results of corporations, government, marketing companies, and data miners (Stauber, 2017). Below are the results of the t-tests that were individually run for the nine items.

**Table 8. Calculation of p-values**

Question	p-value (two-tail)
1	0.684906
2	0.620089
3	0.712257
4	0.682255
5	0.604961
6	0.856448
7	0.853932
8	0.712257
9	0.595174

The t-tests resulted in p-values which were indicative of similarities that existed between the two departments, all much larger than the alpha cut-off of 0.05.

#### **4.5 Factor Analysis**

Factor Analysis (FA) is a statistical data reduction technique that utilizes a mathematical process to streamline interrelated components and to identify patterns in a set of variables (Child, 2006). Its purpose is to simplify the interpretation and recognize relationships and patterns from

data gathered by gathering variables into a limited set of groups with similar variances (Bartholomew, Knotts and Moustaki, 2011). It attempts to isolate constructs and concepts and looks for the simplest method of interpreting data to explain the correlation of observed data and to discover factors that cannot be adequately measured by a single variable (Child, 2006). For instance, an individual's behavior, beliefs and values may be influenced by more than one underlying factor like ethics, leadership style, religious affiliation, or cultural inclination.

#### **4.5.1 Eigenvalues and Rotated Component Matrix**

The Eigenvalues in Factor Analyses determines the quantity of attributes to consider. The Kaiser Normalization criteria (see Table 9), which is a “rule of thumb,” recommends considering attributes above the Eigenvalue of 1. However, pulling out too many may include unwanted error variance while pulling out too few may omit important variances. It is essential to select which measure is most appropriate to the research in determining the quantity to pull out (Rahn, n.d.).

The Component Matrix is a table that shows the loadings or extracted values of each variable based on the number of factors pulled out. The more elevated the absolute value of the loading, the farther the factor adds to the attributes that are listed according to the importance of items in relation to similar responses. The concept of rotating is to reduce the number factors on which the variables indicate elevated loadings. This does not alter the data but merely facilitates the understanding of the analysis. The matrix is used by researchers who look for better understanding and explanations with the aim of developing some degree of generalizations that would contribute towards building a theory. Interpretation can sometimes be holistic in nature with flexible guidelines where the personal views of the researcher may be invoked. The matrix emphasizes the more important attributes as opposed to considering much more variables than

needed in producing meaningful attributes (Rummel, 1970). Once the attributes needed are extracted, the researcher proceeds to identifying them. One of the restrictive characteristics of this method is the problematic interpretation which may not correctly indicate the variables within the component. In addition, some factors may be problematic to understand because they may participate in more than one factor, referred to as split loadings (Yong and Pierce, 2013).

#### 4.5.2 Component Matrix Resulting Scales

In my analysis, I utilized two factors: culture-ethics and leadership-governance. Looking at the results of the extraction below, Items 1, 2, 4, 5, and 6 measured culture and ethics while Items 3, 7, 8, and 9 measured leadership and governance (in bold).

Table 9. Rotated Component Matrix

Item	Component	
	Culture/Ethics	Leadership/ Governance
1	<b>.778</b>	.562
2	<b>.799</b>	.555
3	.681	<b>.683</b>
4	<b>.790</b>	.448
5	<b>.862</b>	.371
6	<b>.824</b>	.510
7	.528	<b>.773</b>
8	.479	<b>.848</b>
9	.414	<b>.890</b>

*Note.* Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. Rotation converged in 3 iterations.

In the above Table, Items 1, 2 4, 5 and 6 were substantially loaded under the Culture and Ethics component while Items 3, 7, 8, and 9 were substantially loaded under the Leadership and Governance component. Item 3 produced close scores for culture-ethics at .681 and leadership-governance at .683. This means there was a strong interaction between the manner of leadership in the governance of federal funds accountability and ethical practices in a culturally rich environment. In the end, I determined to group this item with leadership-governance based on the slightly higher loading. The next process was to calculate the Cronbach's Alpha based on these two groupings.

#### **4.6 Cronbach's Alpha for Measurement Scales**

Cronbach's Alpha is a commonly utilized index to evaluate the reliability of data. It serves as a gauge to measure reliability and internal consistency of data. Cronbach's Alpha started to be widely accepted after Cronbach (1951) advocated the use of the label  $\alpha$  as an easier way of interpreting the scale. In their article "Making Sense of Cronbach's Alpha," authors Tavakol and Dennick (2011) stated: "The closer alpha is to 1, the more reliable the results. A low alpha appears if these assumptions are not met. A useful rule of thumb is that the reliability should be no lower than 0.70" (Tavakol and Dennick, 2011).

##### **4.6.1 Calculating Cronbach's Alpha Coefficient for Internal Consistency**

Internal consistency in these surveys refers to the degree of closeness in the relationship among the reactions or replies to the various components that were utilized in the Likert-Type scales (i.e., total, culture-ethics, and leadership-governance). In his *Journal of Agricultural Education*

article, on reporting and interpreting Likert-Type scores, J.Robert Warmbrod explained: “An internal consistency estimate of the reliability of summated scores derived from a Likert scale requires only one administration of the instrument” (Warmbrod, 2014). This means there is unpredictability so there is no need for test-retest scoring as suggested by other authors like Martyn Shuttleworth (2009) in his scholarly article “Test–Retest Reliability.” Shuttleworth states that test-retest reliability process is not effective as there will always be a degree of inconsistency despite no signs of intervening factors. His rationale was that there is a strong chance that respondents will remember some questions and would try to change their responses in order to perform better.

Below are the results of the Cronbach’s Alpha calculations for the scales on Leadership-Governance for the four items: Item 3, Item 7, Item 8, and Item 9; and Culture-Ethics using SPSS for the five items: Item 1, Item 2, Item 4, Item 5, and Item 6.

Table 10. Reliability Statistics - Scale: Leadership and Governance (4 items)

Cronbach’s Alpha	N of Items
0.969	4

Table 11. Reliability Statistics - Scale: Culture and Ethics (5 items)

Cronbach’s Alpha	N of Items
0.970	5

The results of the Cronbach’s Alpha generated scores for the two factors that were both close to 1, well above the 0.70 rule of thumb for reliability.

## **4.7 Summary of Results**

### **4.7.1 Pre-Survey**

The first milestone of my data analysis was to analyze my initial data set of 18 questions (Appendix M and N) about leadership, culture, ethics and governance using statistical sampling software. I conducted a pre-survey with a total of about 70 students of the University of Guam enrolled in the two sessions of PA570A Master's Degree courses on Understanding Cultural Competencies. The participants were comprised of a variety of Insular Area students, of which over 60% were from the Federated States of Micronesia. This survey generated missing values that may be important to consider ensuring that data is correctly measured. If improperly managed, the missing data may contribute to an incorrect inference. There may also be instances in which the respondent does not respond to certain questions due to stress or their inability to comprehend the questions or because the questions may be sensitive in relation to their cultural environment. The absence of responses is accounted for as missing values. Missing values may be omitted from the data being evaluated (Allison, 2001). I then dropped the missing values from the data set.

Running the dimension reduction in the SPSS analyze function, I noted in the data columns of the Factor Analysis-Communalities that there were many similarities in the 18 questions when comparing the scores, thus carrying correlated information. Correlated data occurs when similar observations become connected or associated within the dataset. Many authors choose to handle correlations simply by removing them from the dataset (Sainani, 2010). Henceforth, only one of them sufficed to feed into my analytics landscape and the rest were dropped.

#### **4.7.2 Actual Survey**

The eighteen questions at Appendix M and N were then reduced to nine questions as documented under Figure 13. These nine questions supported the attributes of leadership, governance, culture and ethics. The questions were utilized in the actual survey I conducted with the two departments, FSM Public Health and FSM Education and also in the SPSS data analysis. I found that the difference of the means for each question from participants in Education and Public Health showed insignificant absolute scores for all the nine questions ranging between 0.4 and 0.21. The measure of variability of the datasets tends to fall towards the center, indicating that the patterns of the attributes of the nine questions were similar. The individual T-Test analysis produced similar expectations with large p-value scores of well over 0.05. The rotated component matrix extracted two strongly represented components, namely culture-ethics with four questions and leadership-governance with five questions.

The results of the Cronbach's Alpha calculations showed interrelations of the variables on the two factors at 0.969 and 0.970 indicating a strong internal consistency of the test scores. The high  $\alpha$  coefficient is a mark of good or reliable set of correlated items.

In Chapter 5, I will translate these results into findings, which will lead to certain conclusions discussed in the final chapter, Chapter 6 Conclusion. In Chapter 6, I will expand these statistically extracted results when compared to the results of the face-to-face interviews with the leaders of the two FSM departments and other stakeholders in the Compact Trust Fund operations.

## **Chapter 5: Accountability Challenges of Compact Fund Stewardship**

The U.S. Government Accountability Office (GAO) produced a report in 2006, titled GAO-06-590, on Micronesia's overall inadequate development scenarios, which focused on the aspect of the problem that fails to attract outside investors into the region. The report's highlights noted that the FSM economy has not seen any significant improvements and appears instead to be characterized by a slow-motion development which greatly impedes FSM's financial sustainability and economic growth. According to the report, there has been an absence of effort on FSM's part in aggressively pursuing specified reforms to jumpstart its economy into a recovery or growth phase. There were discussions about tax reforms as an added source of income, but little has been done to implement them. Two industrial operations that both the U.S. and the FSM governments have pinpointed as having a good potential for success are the fishing and tourism industries. FSM's remoteness and isolation present additional challenges to expanding these industries, as does the nation's lack of sufficient infrastructure, which has all led to its poor economic position and prospects. In addition, the current lack of marketable skills amongst FSM's population, due to inadequate education and vocational training, has become a hindrance to generating more income. These conditions are exacerbated by the complacency of FSM over ensuring that legislated development objectives are implemented (U.S. Government Accountability Office, 2006). The FSM 2023 Action Plan (FSM Office of the President, 2014) lists eight reforms with the ninth being financing the plan.



Table 12. FSM 2023 Action Plan<sup>7</sup>

1. Infrastructure	Update the Infrastructure Development Plan; complete contracting manual; implement Procurement Plan
2. Tourism	Develop a tourism policy with sustainable tourism principles; develop branding strategy; implement a State Tourism Plan; develop accreditation for hotels, tourism operators; strengthen tourism and hospitality training
3. Agriculture	Establish quality compliance centers to meet sanitary and phyto sanitary standards; establish feed mills for processing of local materials for poultry and aquaculture; establish central markets in each state; equip farmers' associations with technology
4. Fishing	Develop comprehensive plans for inshore fisheries; establish competent Authority to facilitate EU fish exports; promote small-scale community-managed aquaculture projects; train for packaging, storage, and marketing fisheries products
5. Energy	Increase share of renewable energy sources to 30% by 2020; develop State Energy Action Plan; develop legislation to regulate private energy sector
6. Information-Communications Technology	Advance submarine cables for Yap and Chuuk; introduce telecommunication competition; free internet access at all government sites
7. Fiscal Reform	Increase Tax/GDP ratio from 12 percent (baseline) graduating to 16 percent by FY2018; step up fishing license fees by FY2018 by \$5 million every 10 years; update Financial Management Act and internal procedures; diversify trading partners for better market access opportunities
8. Enabling environment	Develop a legal framework for protection of FSM genetic resources and traditional knowledge; complete land survey and boundary specifications for sites suitable for commercial development; develop legal framework for deep
9. Financing the Action Plan	Enact 2023 Investment Development Fund Act; establish Investment Promotion Agency to act as one-stop shop to handle foreign investments; review FSM Development Bank policy to re-evaluate lending policies; enhance information system on investment

Source: FSM 2023 Action Plan accessed from: <https://www.adb.org/sites/default/files/linked-documents/cobp-fsm-2016-2018-ld-02.pdf>

<sup>7</sup> The urgency to take immediate actions on these reforms is much overdue. The big gap between investment gains realized returns to a 10% benchmark shown in Figure 14 will only get wider unless a climate of change occurs. A debt trap diplomacy has been seen in instances where nations are trapped into accepting loan agreements that give instant gratification but subsequently become a more onerous repayment through relinquishing loan collaterals. See Footnotes 1 and 12 for these instances. The absence of elected CTF Board members exacerbated the situation as there was no guiding team or leadership to make the first step in the planning-implementation stage. This problem resonates with John Kotter's first 3 steps of the 8 Step model to successful change.

In their *Pacific Islands Report*, issued in May 2013, FSM's auditors, Baker Tilly Virchow Krause, LLP, detailed the release of the FSM FY 2012 annual report and audited financial statements. These were submitted to President Manny Mori and FSM Congress Speaker Isaac Figir. The audit indicated that although the fund's operations show positive improvement, its projected returns still show substantial shortfall from the expected portfolio balance to ensure sustainability when the Compact sector grants end in 2023. CTF governance stated that: "Unless large contributions are made into the Compact Trust Fund, the FSM will not be able to meet its intended target in 2024" (Pacific Islands Report, 2013).

As noted previously, this sets up conflict based upon two different perspectives grounded in each government's cultural mores, specifically:

- The U.S. government acknowledges that the CTF is underfunded, but is unwilling to increase funding due to insufficient progress towards implementing reforms that will align the FSM's practices with those historically developed by the U.S.
- The FSM government similarly asserts that the CTF has not been adequately funded, setting up conditions where the exercise has been doomed from the start and is not a result of their culturally informed implementation of the CTF.

The FSM view of this conflict was gathered during face-to-face interviews (see section 3.2) which are discussed in more detail in Chapter 6.

In a more recent audit of FSM Trust Fund<sup>8</sup> under Report No. 2015-08 by the FSM National Public Auditor issued in September 2015 for a period covering the program's inception

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<sup>8</sup> The FSM Trust Fund is not the same as the Compact Trust Fund. The Congress approved the creation of the FSM Trust Fund in 1999 through Public Law No. 10-150, referred to as the FSM Trust Fund Act. The Act states: "The main objectives of the Trust Fund are to contribute to the long-term financial viability of the FSM and to provide an additional source of FSM revenue." (<http://www.fsmopa.fm/new/2015/Press%20Release%202015-08.pdf>).

in 1999 to March 2015, the audit report noted that the absence of Board's monitoring activities has yielded concerns of non-compliance and stewardship challenges. In accordance to the provisions of the Amended Compact and an enabling FSM law, strict administration and supervision of the trust fund is required by the CTF board. The board consists of three US government officials and two FSM officials, a total of five. Absent a working Board, governance lacked the strategic direction to set goals and objectives. There was difficulty in implementing oversight and monitoring activities over the Trust Fund's operations. A full board was eventually established in 2016.

Other audit findings included the improper maintenance of FSM Trust Fund's books of accounts that resulted in comingling with other funds, lack of fund reconciliation, improper posting of entries in the correct period (The FSM Trust Fund, 2015). The full report on the Trust Funds audit findings is documented in Appendix G: FSM Public Auditor Report No. 2015-08.

A 2015 report from the Asian Development Bank (ADB) laid down a 2023 Strategic Business Plan for the FSM in which ADB claimed that implementation was necessary to turn around the FSM economy. The ADB further reported that the private sector economic activities in the FSM have been limited to small services like subsistence farming and fishing. Investment interest from the private sector has not been positive because of FSM's small population and remote location. In fact, its economy started to deteriorate with only an average annual gross domestic product growth of 0.7% for FY2000–FY2012 and continued its decline to -4.0% and 0.1% in 2013 and 2014 respectively, mainly due to slow release of funding under the Compact Infrastructure Grants. The working age population continues to leave the country due to limited job opportunities resulting in a decrease in population of 0.4% per annum for FY2000–FY2010. In this report, ADB pointed out that after 2023, there is high probability that FSM investment

portfolio will not be able to attain the maximum level of rate of return to sustain FSM economy without additional outside contributions (Asian Development Bank, 2015). While couched in somewhat vague language, the GAO report expressed doubt that the Trust Fund would reach the maximum level and even raised the possibility that it might not be able to disburse any income by 2024 (though the report concluded that the more likely scenario was in not being able to disburse the maximum level allowed).

In May 2015, IMF issued Report No.15/128 reporting on the economic situation in FSM, which highlighted the two critical challenges which were a) increasing growth and, b) assuring a long-term fiscal sustainability. The economy stagnated in FY2014 with a growth of only 0.1 percent, reflecting a slowdown in the activities of infrastructure projects. The report also indicated that a substantial portion of the grants had been allocated to the Compact Trust Fund that is administered by both the U.S. and the FSM, with the expectation that the rate of investment return from the trust fund would be enough to make Micronesia financially self-reliant starting FY 2024. Regrettably, at the current pace of accumulation, investment returns from these trust funds are expected to fall short; hence the need to step up fiscal consolidation and growth-enhancing structural reforms. IMF and FSM authorities arrived at a consensus to vigorously implement the 2023 Action Plan as a means to jump start the economy to be able to meet the planned pay out starting FY 2024. With the newly appointed CTF board members in 2016, some reforms have been initiated. These initiatives include implementing the tax reform package that includes replacing the state taxes.<sup>9</sup> At this juncture, most of the policy actions included in the Action Plan, including the tax reform package, will play a critical role in

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<sup>9</sup> Refer to Table 12: FSM 2023 Action Plan

enhancing the fiscal revenue. However, the tax reforms still sit in the Legislature waiting to be endorsed.<sup>10</sup>

Under the U.S. Department of the Interior, A Joint Economic Management Committee (JEMCO) for FSM was created to support and reinforce the stewardship of the funding contributed under the Compact and to monitor the implementation compliance of grant policies in relation to the goals and objectives of the grants.

In the FY2018 Budget Justifications Report issued by the OIA, one of the many negative feedbacks stated that lower priority activities popular among some island interest groups were taking precedence over the higher priority ones, notwithstanding the expectations of the federal requirements. JEMCO reported that priority activities that directly impact health or public safety may need to be guarded and lower priority projects such as the Nutrition Assistance Program and supplemental education program may need to be dropped in their entirety or disproportionately reduced to give opportunities for higher priority activities that are maintained efficiently.

JEMCO also reported that commitments need to be strengthened by policy makers at all levels of the FSM national governments. The Long-Term Fiscal Framework (LTFF) was developed to allow for an FSM-wide fiscal planning commitment. LTFF was designed to address fiscal challenges due to growth trends in health and education expenditures that are unfunded and are escalating in addition to challenges in the form of political involvement which is turning into an impediment to achieving sustained FSM-wide tax reforms. There is urgency to address these conditions in order to attain a fund contribution level that supports a sustainable economy past 2023 (U.S. Department of the Interior, Office of Insular Affairs Budget Justifications and Performance Information, 2018).

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<sup>10</sup> FSM 2023 Action Plan. <https://www.adb.org/sites/default/files/linked-documents/cobp-fsm-2016-2018-ld-02.pdf>

In May 2018, GAO published GAO-18-415 (Appendix F). It laid down the required steps that would ensure a smooth transition for FSM. GAO found that the unmonitored disbursements from the trust funds can run the risk of not providing adequate annual disbursements. It further found that planned budget reductions have not been implemented. There was lack of drive for trust fund committees to prepare distribution policies as required by the agreements. In addition, there were no fiscal procedures in place for oversight over the disbursements from the trust funds.

The OIA FY2018 Budget Justifications Report reiterated that the most immediate need in the FSM is for governance to organize and utilize its Compact funds efficiently and effectively by negotiating agreed-upon fiscal reforms and monitored fiscal accountability and control standards. The report further documented the absence of performance-based standards and lack of monitoring systems which resulted in poor management practices that appeared to have permeated throughout the FSM government administration. The U.S. has acknowledged that FSM's poor economic performance over the past seventeen years may be attributable to the poor Compact design which lacked effective monitoring activities and better implementation efforts.

Taken together, these illustrate the clash of cultural values between the U.S. government and the FSM. The U.S. view is that failure to adhere to fiscal discipline as evidenced by cases of cronyism and patrimony may easily lead to waste, at best, and fraud, at worst. In direct contrast, the FSM asserts that their culture highly values family, the environment, and self-sustainability, combining this assertion with a Power Distance Index (PDI) that respects the authority of their leaders and elders and a necessity to practice a tit-for-tat exchange strategy that rewards harmony with the knowledge that whatever is given up will be rewarded in the long memory of the leaders and their dedication to keep those owed balances in mind with every new economic opportunity.

I assert in Chapter 6 that these cultural values need not be in as much conflict as is currently experienced. By adopting scoring that takes into consideration things like locally sourced goods and services, carbon footprints, and Disadvantaged Business Enterprise (DBE), those cultural values so important to the FSM can be tracked and supervised in such a manner as to satisfy the U.S. government auditors. Furthermore, by designating a small percentage of funds each year for “strategic opportunities” a mechanism for fiscal accountability can be inserted into systems that still allow elders and other leaders to engage in some limited tit-for-tat behavior that promotes harmony. Any waste, or potential for fraud, is therefore kept to a minimum and the FSM retains its ability to manage in a manner consistent with its cultural mores. See Chapter 6 for more details of these strategies.

## **Chapter 6: Discussion of Study Results, Recommendations, and Conclusions**

### **6.1 Culture Implications for Theory and Practice**

This research was undertaken to explore the perceived influence of culture in the implementation of a smoother accountability of Compact Funds in the Federated States of Micronesia. Culture is a complex and subjective concept. There are a wide range of factors influencing culture which include institutional influences, behaviors in a society, political make-up of governmental hierarchy, and economic conditions. Non-cultural factors that may explain why people do what they do can come in the form of materialism, competitiveness, jealousy, or even greed, all aspects of human nature that can potentially alter a person's interpretation of cultural diversity (UK Essays, 2018).

Kotter and Schlesinger cite Machiavelli's *The Prince*, in the introduction to *Choosing Strategies for Change* (2008): "It must be considered that there is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things" (Machiavelli as cited in Kotter and Schlesinger, 2008, para 1). These authors also write about change as follows:

In accelerating the rate of change, reorganization is usually feared, because it means disturbance of the status quo, a threat to people's vested interests in their jobs, and an upset to established ways of doing things. For these reasons, needed reorganization is often deferred, with a resulting loss in effectiveness and an increase in costs" (Bower and Walton as cited in Kotter and Schlesinger, 2008, para. 2).



## **6.2 On Sensitivity of Research Data**

The sensitivity of my research topic required me to travel to Pohnpei to conduct the survey and the face-to-face interviews for gathering the research data. This process has a potential to cause participants distress and discomfort when caution is not exercised. Conducting the interviews required identifying ways to make the interviews informal and to address the comfort level of the interviewees to prevent any traumatization that might compromise the integrity of my research.

The face-to-face open-ended interviews proved to be more daunting than I thought. Reducing the environment to an informal setting contributed very little effect to being more open in responding to the interview questions (see Figure 6). The questions asked pierced into respondents own personal leadership style and their take on their ethical values. Despite the disconcerting environment, the interviewees responded honestly the best they could and even expressed their opinion on matters of government accountability. They have asked for anonymity to protect their positions.

## **6.3 On Conversations Relative to Culture and Governance**

Below are excerpts of some conversations held during the study of FSM culture and governance. Although there is not a well-defined structure which is equal for all the conversations, the main topics covered were the influences of FSM culture in understanding the stewardship of federal funds entrusted to the FSM government.

Researcher to Respondent A:

“In one segment of the interview, you responded how culture is more pronounced in State 1 as compared to the other 3 states, in that State 1 highlights in their Public Law the importance of considering culture in implementing federal compliance policies. Can you please direct me to the reference materials or Public Law that defines this so I can read more about it?”

Answer of Respondent A:

“Sorry I do not have that reference material but in the government structure there are High Chief and Traditional Chief belonging to a Council that has the authority to review enacted legislation. When I said a bit different, in a sense that they are the keepers of culture which mandates how the high-level government office should form, a bit of discriminatory the way I see it.

Well, you may quote me, but I want to make clear that I value our culture very much; there is value in it which I do not want to see our younger generation to lose it as we lose sight of our identity. The social determinant is our environment, where we grow, learn, play and live.”

Researcher to Respondent B:

“Do you think your ethical and cultural orientation as a government leader have contributed to your ability to adhere to good and trustworthy stewardship of federal funds? If so, to what extent?”

Answer of Respondent B:

“I agree with Respondent A regarding respecting culture at work because it is like an extension of family values. I was born and raised here, and I can say that culture has a strong effect in the manner we manage things around here. It may not be the American

way, but we still get things done and have not had any negative feedback from the Feds. So, it is okay.”

Researcher to Respondent C:

“In the FSM Public Auditor Report No. 2015-08 released in 2016 (Appendix G), it highlighted the lack of board oversight in the accountability of Compact funds. Do you think culture could have possibly made an impact in the manner of stewardship of the Compact Funds? If so, in what way? “

Answer of Respondent C:

“Thanks for sending me a copy of the audit report. I’ve read it and if you read between the lines, it is really about complacency. You probably know as our auditor in the past that this is a result of something much bigger. Now, as to whether this has something to do with culture, I am in no position to respond to this.... you folks (auditors) always tell us that bad things start when nobody is looking; you know, human nature.... so, make your own conclusion based on facts.”

Researcher to Respondents D and E:

“To what extent is stewardship of Compact funds contingent upon culture?”

Answer of Respondent D:

“It is not always about culture. As an investment advisor, let us not discount the fact that there are greater forces affecting the stewardship of the funds like market volatility. The financial turmoil that catapulted in fall 2008 was a bad year for all kinds of investors and did not matter whether the investment is in the US, Europe, Asia, or third world countries. The global crisis in the major financial markets included the explosive growth and overexposure of subprime mortgage deals, bank collapse, government bailouts,

government takeover of Fannie Mae and Ginnie Mae, and government bailout of the insurance giant, American International Group, Inc., all staging for the turmoil and triggering panic in the investment industry. The Compact Trust Fund portfolio was not spared and was heavily affected.”

Respondent D offered the following data relative to how the CTF gain is tracking against the CTF contributions where currently there is only a 5.6% Rate of Return since inception compared to 10.7% Trust Fund Benchmark. A projection of 10% return will achieve a 94.7% distribution which should sufficiently sustain FSM. This chart was pulled from the 2017 Mercer Group Report:

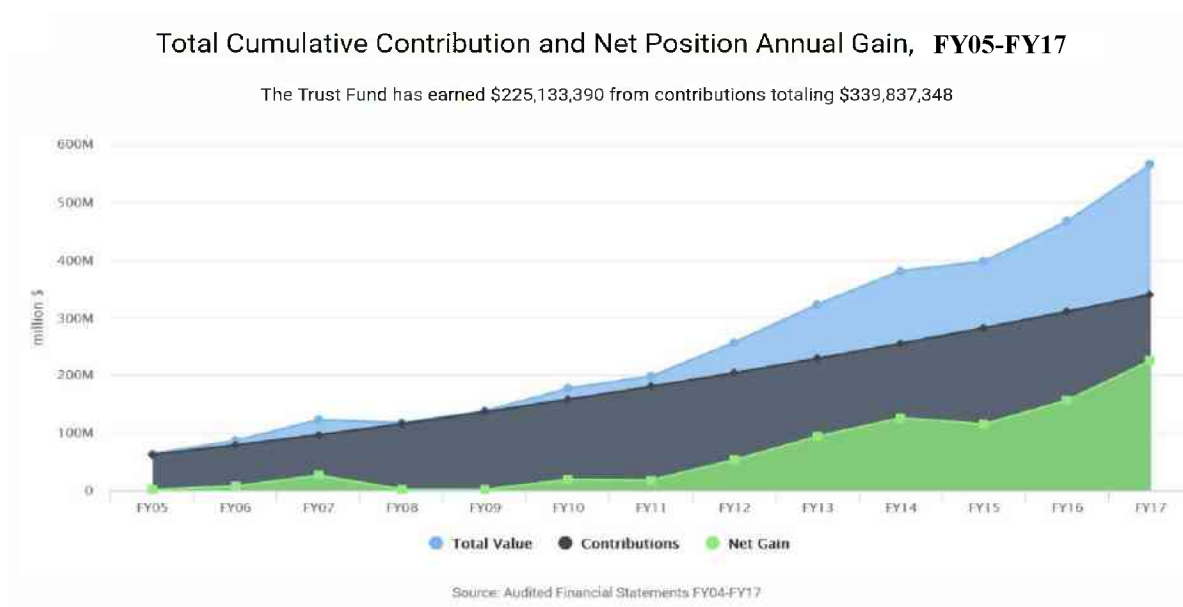


Figure 14. Total Cumulative Contribution and Net Position Chart

Contributions to the Fund started in fiscal year 2005 with an initial contribution of \$30 million by FSM and matched by the U.S. with \$32.2 million (Appendix J). Since then, the U.S.

has been contributing yearly to the fund at an average of \$24 million with an accumulated total of \$340 million as of FY 2017. Accumulated gain since the inception is at \$225 million, or a total of \$565 million in the fund. The Mercer Investment Group that handles the FSM investment portfolio indicated that a 10% return must be achieved for the FSM to be sustainable after year 2023, the end of the compact funding. The chart below shows trust values at a 10% rate of return or \$1.3 million compared to a 5% return of \$900 thousand or \$1.1 million at 8%. The gap at 5% return is about \$400 thousand and \$200 thousand at an 8% return. \$1.3 billion represents the grant replacement value at 6% withdrawal rate that will transfer to the FSM operations.

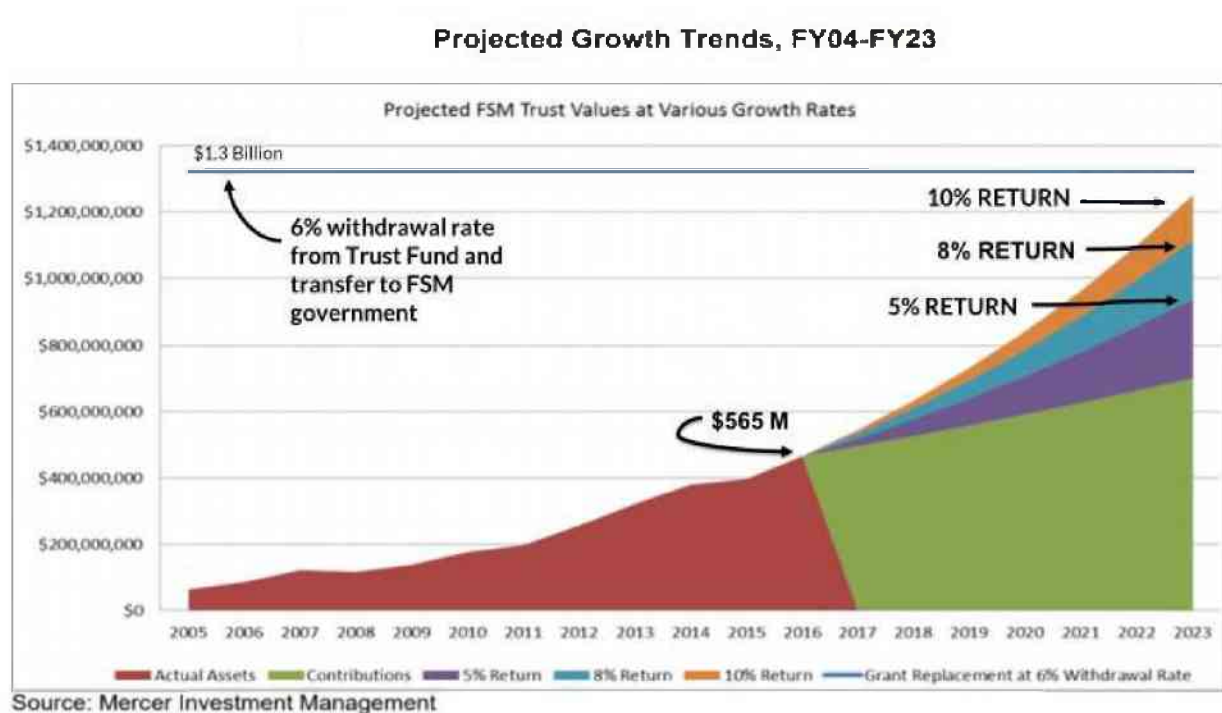


Figure 15. Projected Growth Trends through FY 2023.

In addressing the gap, FSM should aggressively start implementing the 9 reforms of their 2023 Action Plan<sup>11</sup> (Table 8). China is fully aware of this gap and seems to be too generous to extend financial loans that could culminate into a debt trap diplomacy (Footnote 12).

Researcher to Respondent E:

“As steward to the FSM funds, how does culture possibly impact the degree of accountability of Compact funds?”

Answer of Respondent E:

“Some aspects of accountability are not about culture because the Compact Trust Fund was poorly designed to begin with. It is underfunded and thus create a significant shortfall after 2023. Major recommendations to address this situation is to implement the 2023 Action Plan. As there are strong accountability expectations with regards to federal funds, a leadership style will have limited impact as how and when funds are spent. These factors are strictly controlled and there generally is little discretion on how funds are spent. The key is to monitor and oversee expenditures to make sure they comply with grant conditions – but this is not often implemented. Just don’t quote me as the source of this statement. I will visit Guam again and we will talk some more.”

Responses from Respondents A, B, and C appeared to point to culture as the distinguishing indicator that drives the accountability attribute. Responses from Respondents D and E focused more on investment returns and market volatility indicators that drive the accountability of Compact funds.

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<sup>11</sup> The 2023 Action Plan developed by the FSM government in February 2015 emphasized the value of productivity as a major means to grow the economic environment, and therefore one of the stronger revenue sources is through revamping tax laws, so that FSM can obtain additional revenue to fund social services beginning FY2024. <http://www.dofa.gov.fm/wp-content/uploads/2018/12/FSM-2023-Action-Plan.pdf>

## **6.4 On Accountability Challenges**

In the FSM Program Review Section of the FY 2018 Annual Budget Justifications Report issued by the U.S. Department of the Interior, Office of Insular Affairs, FSM's inability to aggressively enforce a mechanism in the effective management of funds was documented as follows:

The U.S. believes that part of the reason for poor economic performance was traced to the original design of the Compact. The absence of guidelines or performance standards and monitoring have tolerated unacceptable practices to find its way in the administration of the funds (U.S. Department of the Interior, Office of Insular Affairs, FY2017 Budget Justification: FSM Program Overview, p. 77).

High ranking officials from the U.S. and FSM have since joined forces and created a joint economic committee pledged to meet no less than yearly to render a status report on performance and accountability concerns for how the federal assistance was utilized. The responsibility for monitoring activities was placed upon OIA with the expectation that a minimum of 200 days of site visits will occur, primarily to address major issues as they arise.

To comply with enhanced reporting and accountability, the Program Review Section (Appendix I) mandated the structuring of a Financial Management Information System capable of capturing accurate accounting, including timely reporting of accurate financial records to be made accessible to the national and state governments of the FSM in the most efficient manner. This compliance would include performance-based budgeting for planned use of Compact funds expenditures and the development for best practice management procedures and adherence to

internal control guidelines (U.S. Department of the Interior, Office of Insular Affairs, FY2018 Budget Justification: Enhanced Reporting and Accountability, p. 86; Appendix H).

## **6.5 Research Limitations**

The FSM community is small compared to other Insular Areas. Some participants recognized me as their former auditor and expressed their commitment to participate in the survey. The survey responses may not all be truthful as some participants may have responded to the questions according to what I would like to hear as an auditor. I have my own biases that I cannot ignore resulting from my audit assignments in the past that may also have affected my research.

The face-to-face interview responses were subdued due to the sensitivity of the research data. It was difficult to encourage the interviewees to expand their answers even when I rephrased the questions to simpler and basic sentence structures. It was evident that the request for anonymity was to protect their positions. I noted that language barrier was not an issue since the interviewees spoke excellent English. However, I was discouraged from using an audiotape, which made it difficult to convert spoken words into written words and not being able to capture the non-verbal cues or behaviors that were important to the research.

Culture is a dynamic, constantly changing field. To better explore the cultural dimensions, the survey should not be limited to just two departments. The study of two departments is not sufficient to provide complete qualitative and quantitative data on the entire FSM cultural system. More research is needed based on a larger population to extract more accurate data.



Based on the economic challenges under Chapter 5, future research would be needed to expand the breadth of the study to include elements other than culture that may affect the accountability of federal grants, like investment market volatility, revisiting investment allocations to include periodic review of FSM's Compact funds investment portfolio, the extent of the engagement of foreign investors, continued FSM program assessments by the U.S. Department of the Interior, Office of Insular Affairs, and continued monitoring of FSM funds by the Compact Trust Fund committee members.

## **6.6 Research Questions**

This study sought to answer four specific questions:

- Does culture possibly impact the degree of accountability of Compact funds?
- As a leader of the FSM governance, what is/are the expectation/s of the leadership roles that needed to be carried out?
- To what extent have the organizational leadership style and ethical orientation affected the ability to adhere to good and trustworthy steward of federal funds?
- To what extent can culture impact leadership and stewardship?

Clearly, the culture of the FSM impacts the ability of the FSM to implement American-style accountability of Compact Funds. The questions remain whether the American system and FSM system can find congruent interests. It seems likely that they can do so, since significant security risks are present for both to remain in conflict.

Equally clear, it seems, is that there is an expectation of local leadership authority as more pronounced and explained by Power-Distance Index (PDI) that is considerably higher in the FSM than in the U.S. This means that an outside authority may never enjoy the control that

current accounting standards have demanded. A more regional approach of shared authority may be more compatible to the FSM's culture.

The FSM leadership style and ethical orientation are oriented towards very different goals than the U.S. government or American-style system. Whereas, the American system seeks to discourage waste and cronyism, the FSM system promotes harmony and protection of the environment. Both are laudable. Both are compatible under the right conditions. The recommendations that follow suggest one path to congruence.

## **6.7 Specific Recommendations**

**Recommendation #1:** Use Kotter's 8-step change model to:

1. Increase urgency: 2023 is only a few years removed and failure to establish a sustainable system acceptable to both the FSM and the U.S. government leaves many significant uncertainties for all parties.
2. Build the guiding team: See Recommendation #2.
3. Get the vision right: See Recommendation #2.
4. Communicate for buy-in: See Recommendation #5.
5. Empower action: Recommendations #3 and #4.
6. Create short-term wins: Recommendation #6.
7. Don't let up. Recommendation #7.
8. Make change stick. Recommendation #8.

**Recommendation #2:** Establish a Regional Advisory Board (RAB) that establishes policy and hears appeals of fiscal governance. This provides an intermediary level between the

Compact Trust Fund (CTF) Board and the FSM fund managers and local governmental authorities. The CTF Board’s authority to intervene in policy or operations is limited to those cases where the RAB fails to manage the CTF in a sustainable fashion. This should provide the “polycentricity” necessary to achieve efficiency of managing the Common-Pool Resources represented in the CTF as recommended in Ostrom’s research.

**Recommendation #3:** Adopt fiscal management policies that recognize the following:

- Environmental Sustainability
- Locally Sourced policies to:
  - Promote small carbon footprints;
  - Develop local capacity;
  - Promote Economically Disadvantaged Enterprises;
  - Promote contract dollars staying in the local economy as long as possible before dropping out of the money supply; and
  - Capture the wisdom of local traditions, such as promoting harmony.
- Performance standards that hold firms accountable to lowest responsible bidder standards, but with well-defined bonus points for compliance with the factors laid out above.

This provides a mechanism to monitor regionally preferred contracting, but in a way that discourages waste and cronyism.

**Recommendation #4:** In every annual budget, set aside a small, but not insignificant line item for “strategic opportunities” that can be used with less oversight and to provide elders and managers ways to promote harmony and ensure that equity is maintained. A leader who is forced

by conditions to make a unilateral decision, could later use this line item for a Strategic Opportunity Grant (SOG) that would make reparations for the unilateral decision and ensure overall harmony. One would expect some alliances to be made to combine several leaders' "SOGs" on occasion in order to implement more ambitious projects just as regional traffic funds are often unofficially traded in order to gain advantage for one's future projects. This policy acknowledges and allows this cultural condition to continue, but in a small and controlled manner.

**Recommendation #5:** Build the network through a system of standardized conferences. This means establishing travel funds or ensuring adequate communication systems are in place to keep interest holders informed and to solicit their input. Rotating the RAB's meeting place is another strategy to ensure all interest holders are engaged and heard.

**Recommendation #6:** Create an action plan that identifies some easy cases to apply the RAB's expertise. Widely celebrate these successes.

**Recommendation #7:** The U.S. government should create an incentive system to reward adoption of fiscally responsible policies; and, demonstration of organizational capacity to enforce these policies with incremental funding of the CTF until it is fully funded; and, simultaneously self-sustaining. Scaling and phasing should be such that these dual goals are attained at about the same time. This system should be tied to milestones and all mention of turn-over dates should be abandoned. The incentives will be such that the Financial Stability Board (FSB) will want turn-over to occur as quickly as possible, and removing the deadline removes most of the uncertainty represented by outside foreign powers (i.e., China).

The COFA agreement was started in FY2004 and terminates in FY2023, a 20-year contract provision. The difficulty in managing such long contract periods comes in the form of

inflexibility to adapt to a changing economic environment and market volatility. Contracts with an evergreen clause on the other hand, offer short term periods like 5 years or 10 years that would allow for curing any flaws in the agreement. An evergreen clause permits a contract to routinely restart after the expiry date and the parties involved can agree to roll over automatically until one give notice to terminate it. The evergreen clause offers expediency and accessibility for both parties since there would be no need to renegotiate or to have the option not to renegotiate if either party is unsatisfied (Voorhees, 2016). However, due to the political nature of the COFA involving U.S. defense and military maneuvers, this option may not be as easy to adopt without running into political bureaucracy.

**Recommendation #8:** Make change stick. By signaling trust in local wisdom, and maintaining a hands-off, yet engaged presence (through honoring milestone funding of the CTF), the U.S. government can create conditions where the FSM finds these new policies to be authentic, which makes those policies more likely to be sustained after the handover sometime after 2023.

These recommendations offer a path to sustainability by the FSM and regional security for the U.S. government, but hazards remain for both. The next section discusses some of these hazards.

## **6.8 Implications: The Future of FSM Compact Funds**

In December 2015, the Congress of the Federated States of Micronesia met with the U.S. Department of State to discuss potential renewal of the Compact when it expires in 2023.



Figure 16. FSM Government and U.S. Department of State. From *The Diplomat*, 2016.

The Micronesian Forum issue of August 2015 states that the Compact, which started the agreement among free association between the U.S. and the FSM, does not end. However, the continuity of funding the Compact is the section of the agreement that will end by 2023. The U.S. still plans to keep the defense and security affiliation with the FSM indeterminately. The objective of the FSM trust fund assistance is focused on FSM efforts to attain economic freedom and be able to support itself. While the U.S. will be terminating direct financial assistance, it plans to replace this with the proceeds of a separate trust fund to be established for the FSM but expects the FSM to secure other means or contributors to that trust fund.<sup>12</sup>

### **6.8.1 China's Heightened Interest in Micronesia**

In anticipation of an end to the U.S. Compact, China is seriously placing itself strategically to be the next major economic power in countries of strategic interest to the U.S. In recent years, Chinese investment in the region has increased dramatically. China has

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<sup>12</sup> Will the COFA continue after 2023? Micronesia Forum updated August 2015.  
<http://micronesiaforum.org/index.php?p=/discussion/14189/what-cofa-benefits-will-continue-for-fsm-citizens-and-governments-after-2023>

been wooing and getting cozy with Micronesia in preparation for the end to the U.S. compact since 2001. In the February 19, 2016 issue of *The Diplomat*, an article on “America’s Micronesia Problem” by Matelski (2016) reported that China has so far invested \$28 million into FSM economy and FSM appears to comfortably fall into the domain of the Chinese circle.



*Chinese President Xi Jinping (L, front) holds a welcome ceremony for Micronesian President Peter M. Christian before their talks in Beijing, capital of China, March 27, 2017. /Xinhua Photo*

Figure 17. Chinese President Xi welcomes FSM President Christian.

President Peter Christian was quoted in the visit above: “I was flattered that for a small country they would exhibit such formality” (Yun, 2017). Year 2018 marks the anniversary of the economic and technological cooperation between the People’s Republic of China and the Federated States of Micronesia, about 28 years of uninterrupted diplomatic relations (Kaselehlle Press). FSM government is pushing to grow its infrastructure and possibly a sustainable economy in the near future by maintaining the momentum of good business relationship with China through a nearly 30-year-old agreement. China is just as eager to develop programs where the U.S. has failed. FSM officials are invited on a regular basis to discuss Chinese investment targeting FSM growth, infrastructure, fishing, financial loans, and others with all expenses paid and a red-carpet reception.

China has also established an oceanography research center aboard the Chinese vessel *KeXue* as pictured in Figure 5 and has been actively recruiting young Micronesians to take advantage of scholarships and be part of this project (Cagurangan, 2019). Towards the end of FY 2023 when the Compact ends, the U.S. is positioned to lose access to the tactical military links of communication that joined the Pacific Ocean to the critical circulation of the East and South China Seas. Some may look at this condition as leverage for Micronesians to craftily strong-arm the U.S. into offering a better long-term deal. Others argue that the Compact of Free Association needs more time and attention before the funding agreement ends. China as an FSM option is getting stronger (Meick, Kerr, and Chan, 2018).<sup>13</sup>

For a long period, predominant entitlement to the ownership of the shores of the China Sea has been the subject of argument and aggressive disputes among the states that border this body of water, namely the Philippines, Malaysia, Brunei, Indonesia and Vietnam, which are all members of the ASEAN<sup>14</sup> group with China as their giant and dominant powerful force adjacent to them. Marine biologists are encouraging these countries to initiate a meeting to settle their territorial claims and make compromises in order to safeguard the marine life that continues to be depleted in this region. The success of any management scheme is dependent on China's wholehearted involvement. However, China has not clearly made known its intent to fully support or cooperate. With China bragging as a major power with an enormous craving for fish,

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<sup>13</sup> These are some documented attempts by China to strengthen its ties with the Federated States of Micronesia through science diplomacy, adding a layer to their bilateral relations. FSM appears gracefully falling into the sphere of Chinese influence, an opportunity that FSM cannot pass. China seems clearly to be FSM's alternative for financial refuge as it braces for the 2023 termination of U.S. grants under the Compact of Free Association.

<sup>14</sup> ASEAN stands for Association of Southeast Asian Nations. The partnership of the U.S. and ASEAN is to ensure economic integration, develop continuing maritime cooperation, nurture ASEAN leaders, endorse opportunities for ASEAN women, and address transnational issues.



shellfish and other crustaceans plus being a big investor in Asian countries, China is challenging the U.S hegemony in these regions.<sup>15</sup>

Strangely, the U.S. has been silent regarding its policy with the FSM. As China exerts soft power in the region, the U.S. appears to be pursuing a non-action strategy that is “driving the Micronesians into the arms of China” (Matelski, 2016, para. 2), which creates a “strategic access” problem for the U.S. China has already demonstrated its “first island strategy” in the South China Sea with the militarization of terraforming initiatives by creating seven artificial islands including the installation of radar stations and bunkers large enough to house bombers (Banyan, 2018).<sup>16</sup> For the FSM and U.S., the interests is focused on the “second island strategy” of “counter-intervention” mentioned in Chinese military literature and referring to a similar plan to create forward military installations as a way to limit other sovereign powers’ ability to freely move about the region. The U.S. policy of continuing to wait out the FSM leadership is becoming worrisome (Matelski, 2016). This has thus far been limited to posturing but may take a different turn when the FSM introduces a resolution to end the compact agreement with the U.S. in 2023 (Daleno, 2015).

### **6.8.2 China Lures Asia, Oceania, Europe and Africa with its Belt and Road Mega Project**

Belt and Road is an ambitious mega infrastructure project of China attempting to link at least 70 to 80 countries spread out in the continents of Asia, Europe, Oceania and Africa. The

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<sup>15</sup> An argument of China is the contents of the U.S.’ Freedom of Navigation Program. As part of the program, the U.S. regularly makes marine patrols and implements the international maritime law in the conduct of its patrols, but China interprets this as an infringement to its sovereignty (Houck and Anderson, 2014).

<sup>16</sup> In the South China Sea, the Trump Administration continues to oppose the Obama Administration policy on furthering island building or supporting “freedom of navigation operations” that enable U.S. Naval vessels to come near the new Islands (Banyan, 2018).

'Belt and Road,' or often referred to as “One Belt-One Road” is President Xi Jinping’s mega-project, consisting of two segments: The "Belt," that reconstructs the original Silk Road land path, and the "Road," which does not really mean a physical road, but a path to various oceans. Started in 2013 as “one belt, one road,” it encompasses China guaranteeing billions of dollars of design-build-operate construction contracts in countries along the old Silk Road that would extend to the European economic areas. The China Development Bank claims that the project has additionally accumulated signatures from over 60 countries to this scheme spending roughly \$900 billion (Smith, 2018). Nevertheless, the ambition is immense. This project is the strongest manifestation of Mr. Xi’s resilience to plan and structure worldwide dominance.

This is the point where Belt and Road gets contentious as many of those nations who signed up have limited cash flow. Many countries are opting to secure loans from China that seem very generous with its deep pockets; however, the restructuring options available may not be financially feasible to many nations when the loans are called due. Consequently, China’s method is viewed as encouraging a “debt trap diplomacy”<sup>17</sup> in the way China markets its Belt and Road projects. For instance, in 2017, China took control of the Hambantota port of Sri Lanka which had been financed with Chinese loan. Sri Lanka was unable to provide the cash flow to pay off the loan. Through a 99-year lease-back agreement, China was able to take possession of the port. The port of Kenya is in a similar situation and likely to relinquish its possession to China in exchange for a 99 – year lease agreement. Rome is the next interest of China where the

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<sup>17</sup> This debt trap diplomacy gives the appearance that China is bailing out regions in financial difficulty; however, with no cash to pay the obligation, the natural progression of this “diplomacy” is taking over the available collateral of the financially strapped nation.

China President is scheduled to visit. China is optimistic to include Rome in its list<sup>18</sup> (Meyer, 2019). The May 2017 round table summit on “One Belt-One Road” program held in China was attended by economic leaders that included the United Nations Secretary General, economic leaders from North Korea, United Kingdom’s Chancellor, Mexico’s economic Minister and Italy’s Prime Minister who all praised Chinese President Xi’s vision (Abdul, 2017).

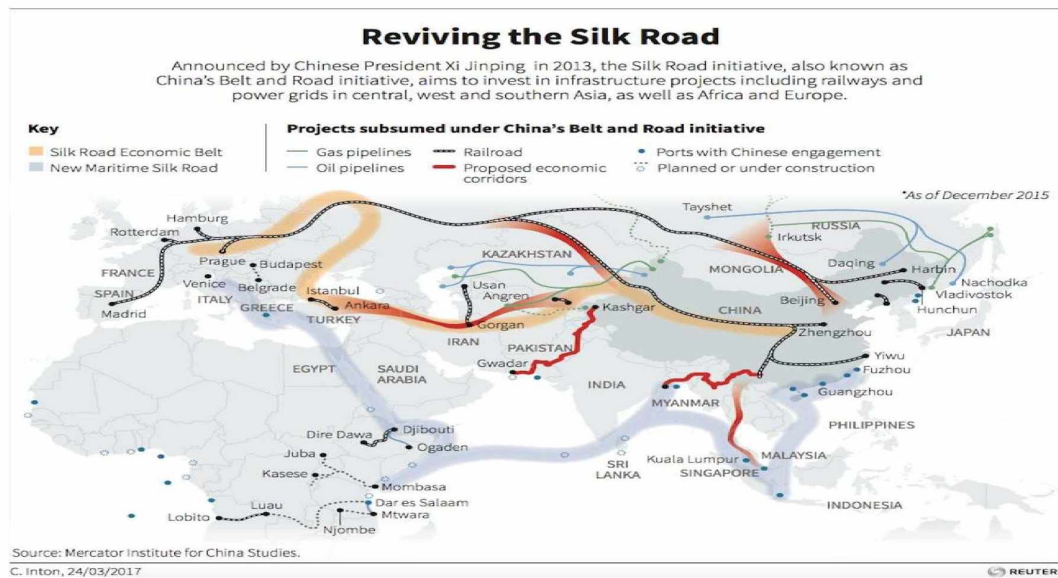


Figure 18. Projects Under China’s Belt and Road Program. Source: Mercator Institute for China Studies.

With the increasingly closer relationship between China and the rest of the world, including the FSM, time will tell whether the FSM dependency might possibly switch to China — but can, or will, the U.S. allow that? The U.S. needs to scrutinize the consequence of its next

<sup>18</sup> Appearing in the China’s Morning Post issue dated March 23, 2019, Italy welcomed China’s Belt and Road program. Italy was the first major European country that signed off, giving China’s President Xi Jinping’s project a lift in marketing and increasing the Belt and Road trade initiatives (Chatzky, March 27, 2019).

action and keep in mind that the security interests over this part of the world are not jeopardized (Leis, 2012).

In a newscast appearing in a local newspaper in Guam on October 23, 2016, Dr. Ansito Walter, an Associate Professor of the University of Guam and former governor of the state of Chuuk addressed the Guam Rotary Club and posed the question whether the Compact Funds will terminate in 2023 ([kuamnews], 2016).<sup>19</sup> He stated: “The funds will continue indefinitely despite FSM senate resolutions to the contrary because the FSM states have too much at stake to ever cut ties with Washington.”<sup>20</sup>

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<sup>19</sup> Former Chuuk governor says Compact of Free Association has future Trimmed.mp4

<sup>20</sup> The FY 2018 Budget Justifications indicated deep cuts in U.S. International Aid that affected the Insular Areas and increasing the funding in favor military defense. With President Trump’s strict implementation of the immigration laws, aggressive enforcement of deportation, cuts With Trump’s full force and fury laws on immigration, funding the Wall, and materially reducing climate change budget, the progression of such political actions would lead one to believe that there is no astounding support in the continuity of federal assistance not just for FSM but rendering deep cuts to the rest of the Insular Areas.

Budget defense Act has a cap of \$549 billion but President Trump increased this to 639 billion in budget year 2018 with a \$160B boost over two years.

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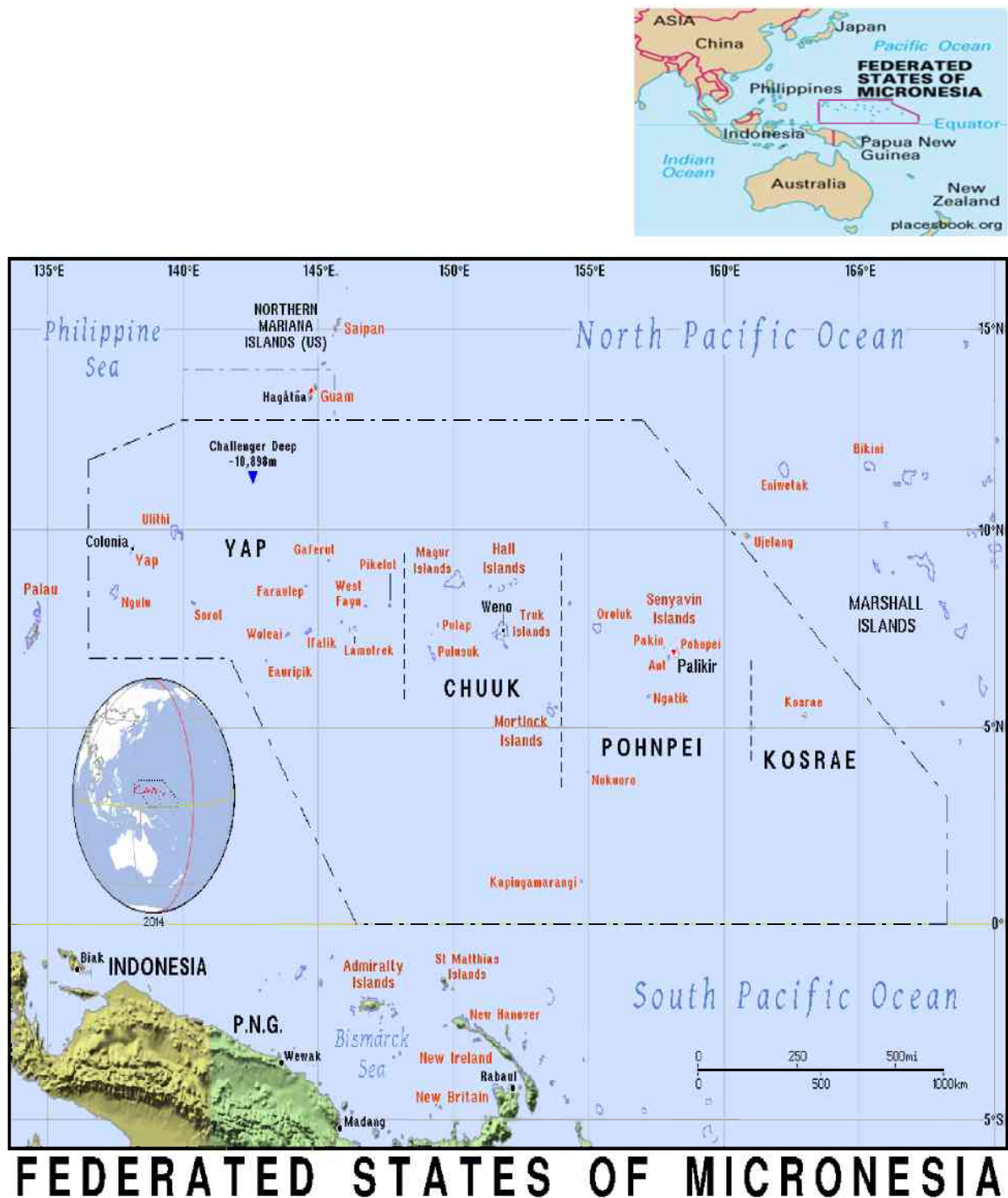
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## Appendix A: Map of the Pacific Micronesia Region



Source:

[http://www.vidiani.com/maps/maps\\_of\\_australia\\_and\\_oceania/maps\\_of\\_micronesia/full\\_political\\_map\\_of\\_micronesia.jpg](http://www.vidiani.com/maps/maps_of_australia_and_oceania/maps_of_micronesia/full_political_map_of_micronesia.jpg)



**Appendix B: FSM-RMI Compact Payment Projections: 2004 through 2023**  
(With Inflation Adjustments)

Office of Insular Affairs

FY 2018 Budget Justification

**FSM-RMI Compact Payment Projections**  
**2004-2008**  
(In thousands of dollars)

	2004			2005			2006			2007			2008			Subtotal 2004-2008
	Base	Inflation 0.00%	Total	Base	Inflation 2.00%	Total	Base	Inflation 4.35%	Total	Base	Inflation 6.68%	Total	Base	Inflation 8.58%	Total	
<b>Federated States of Micronesia</b>																
Annual Grant Section 211	76,200	-	76,200	76,200	1,524	77,724	76,200	3,315	79,515	75,400	5,037	80,437	74,600	6,401	81,001	394,876
Audit Grant Section 212 (b)	500	-	500	500	-	500	500	-	500	500	-	500	500	-	500	2,500
Trust Fund Section 215	16,000	-	16,000	16,000	330	16,330	16,000	698	16,698	16,800	1,122	17,922	17,600	1,510	19,110	86,048
<b>Total FSM Compact</b>	<b>92,700</b>	<b>-</b>	<b>92,700</b>	<b>92,700</b>	<b>1,854</b>	<b>94,544</b>	<b>92,700</b>	<b>4,013</b>	<b>96,713</b>	<b>92,700</b>	<b>6,159</b>	<b>98,859</b>	<b>92,700</b>	<b>7,911</b>	<b>100,611</b>	<b>483,424</b>
<b>Republic of the Marshall Islands</b>																
Annual Grant Section 211	35,200	-	35,200	34,700	694	35,394	34,200	1,488	35,688	33,700	2,251	35,951	33,200	2,849	36,049	178,281
Audit Grant Section 212 (b)	500	-	500	500	-	500	500	-	500	500	-	500	500	-	500	2,500
Trust Fund Section 215 (a&c)	7,000	-	7,000	7,500	150	7,650	8,000	348	8,348	8,500	568	9,068	9,000	772	9,772	41,838
Kwajalein Impact Section 212	15,000	-	15,000	15,000	300	15,300	15,000	653	15,653	15,000	1,002	16,002	15,000	1,287	16,287	78,742
Rongelap Resettlement Section 103 (f)(4)	-	-	-	1,780	-	1,780	1,760	-	1,760	1,700	-	1,700	-	-	-	5,320
Eniwetok Section 103 (f)(2)(c)(i)	1,300	-	1,300	1,300	26	1,326	1,300	57	1,357	1,300	87	1,387	1,300	112	1,412	6,781
<b>Total RMI Compact</b>	<b>53,000</b>	<b>-</b>	<b>53,000</b>	<b>60,780</b>	<b>1,170</b>	<b>61,950</b>	<b>60,760</b>	<b>2,545</b>	<b>63,305</b>	<b>60,700</b>	<b>3,908</b>	<b>64,608</b>	<b>59,000</b>	<b>5,019</b>	<b>64,019</b>	<b>312,342</b>
<b>Compact-Other</b>																
Compact Impact Section 104 (e)	30,000	-	30,000	30,000	-	30,000	30,000	-	30,000	30,000	-	30,000	29,700	(26)	29,674	149,674
Compact Impact Enumeration Section 104 (e)(4)	-	-	-	-	-	-	-	-	-	-	-	-	300	28	328	328
Judicial Training	300	-	300	320	6	326	300	13	313	300	20	320	300	26	326	1,565
<b>Total Compact-Other</b>	<b>30,300</b>	<b>-</b>	<b>30,300</b>	<b>30,320</b>	<b>6</b>	<b>30,326</b>	<b>30,300</b>	<b>13</b>	<b>30,313</b>	<b>30,300</b>	<b>20</b>	<b>30,320</b>	<b>30,300</b>	<b>26</b>	<b>30,326</b>	<b>151,565</b>
<b>GRAND TOTAL</b>	<b>182,000</b>	<b>-</b>	<b>182,000</b>	<b>183,780</b>	<b>1,070</b>	<b>184,900</b>	<b>183,760</b>	<b>6,569</b>	<b>190,925</b>	<b>183,760</b>	<b>10,067</b>	<b>193,847</b>	<b>182,000</b>	<b>12,954</b>	<b>194,954</b>	<b>947,911</b>

**FSM-RMI Compact Payment Projections**  
**2009-2013**  
(In thousands of dollars)

	2009			2010			2011			2012			2013			Subtotal 2009-2013
	Base	Inflation 10.51%	Total	Base	Inflation 10.94%	Total	Base	Inflation 11.97%	Total	Base	Inflation 13.40%	Total	Base	Inflation 15.71%	Total	
<b>Federated States of Micronesia</b>																
Annual Grant Section 211	73,600	7,756	81,356	73,000	7,986	80,986	72,200	8,542	80,742	71,400	9,568	80,968	70,600	11,091	81,691	406,044
Audit Grant Section 212 (b)	500	-	500	500	-	500	500	-	500	500	-	500	500	-	500	2,500
Trust Fund Section 215	18,400	1,934	20,334	19,200	2,100	21,300	20,000	2,394	22,394	20,800	2,787	23,587	21,600	3,193	24,793	112,609
<b>Total FSM Compact</b>	<b>92,500</b>	<b>9,690</b>	<b>102,190</b>	<b>92,700</b>	<b>10,087</b>	<b>102,787</b>	<b>92,700</b>	<b>11,016</b>	<b>103,716</b>	<b>92,700</b>	<b>12,355</b>	<b>105,055</b>	<b>92,700</b>	<b>14,485</b>	<b>107,185</b>	<b>521,153</b>
<b>Republic of the Marshall Islands</b>																
Annual Grant Section 211	32,700	3,437	36,137	32,100	3,523	35,723	31,700	3,794	35,494	31,200	4,181	35,381	30,700	4,823	35,523	178,258
Audit Grant Section 212 (b)	500	-	500	500	-	500	500	-	500	500	-	500	500	-	500	2,500
Trust Fund Section 215 (a&c)	9,500	998	10,498	10,000	1,094	11,094	10,500	1,257	11,757	11,000	1,474	12,474	11,500	1,807	13,307	59,130
Kwajalein Impact Section 212	15,000	1,577	16,577	15,000	1,641	16,641	15,000	1,795	16,795	15,000	2,010	17,010	15,000	2,157	17,157	84,380
Rongelap Resettlement Section 103 (f)(4)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Eniwetok Section 103 (f)(2)(c)(i)	1,300	137	1,437	1,300	142	1,442	1,300	156	1,456	1,300	174	1,474	1,300	204	1,504	7,313
<b>Total RMI Compact</b>	<b>53,000</b>	<b>6,148</b>	<b>59,148</b>	<b>53,000</b>	<b>6,400</b>	<b>59,400</b>	<b>53,000</b>	<b>7,002</b>	<b>60,002</b>	<b>53,000</b>	<b>7,839</b>	<b>60,839</b>	<b>53,000</b>	<b>9,190</b>	<b>62,190</b>	<b>331,580</b>
<b>Compact-Other</b>																
Compact Impact Section 104 (e)	30,000	-	30,000	30,000	-	30,000	30,000	-	30,000	30,000	-	30,000	29,700	(47)	29,653	149,653
Compact Impact Enumeration Section 104 (e)(4)	-	-	-	-	-	-	-	-	-	-	-	-	300	47	347	347
Judicial Training	300	32	332	300	33	333	300	36	336	300	40	340	300	47	347	1,688
<b>Total Compact-Other</b>	<b>30,300</b>	<b>32</b>	<b>30,332</b>	<b>30,300</b>	<b>33</b>	<b>30,333</b>	<b>30,300</b>	<b>36</b>	<b>30,336</b>	<b>30,300</b>	<b>40</b>	<b>30,340</b>	<b>30,300</b>	<b>47</b>	<b>30,347</b>	<b>151,688</b>
<b>GRAND TOTAL</b>	<b>182,000</b>	<b>15,870</b>	<b>197,870</b>	<b>182,000</b>	<b>16,519</b>	<b>198,519</b>	<b>182,000</b>	<b>18,075</b>	<b>200,075</b>	<b>182,000</b>	<b>20,234</b>	<b>202,234</b>	<b>182,000</b>	<b>21,722</b>	<b>203,722</b>	<b>1,004,430</b>

**FSM-RMI Compact Payment Projections**  
**2014-2018**  
*(in thousands of dollars)*

	2014 Inflation 16.54%			2015 Inflation 16.28%			2016 Inflation 17.87%			2017 Inflation 18.91%			2018 Inflation 20.91%			Subtotal 2014-2018
	Base		Total	Base		Total	Base		Total	Base		Total	Base		Total	
<b>State of Micronesia</b>																
Section 211	69,800	11,545	81,345	69,000	11,233	80,233	64,200	12,187	80,387	67,400	12,745	80,145	66,600	13,976	80,576	402,637
Section 212 (a)	500	-	500	500	-	500	500	-	500	500	-	500	500	-	500	2,500
Section 215	23,400	3,709	26,109	23,200	3,777	26,977	24,000	4,289	28,289	24,800	4,690	29,490	25,600	5,351	30,951	141,813
Impact	92,700	15,253	107,953	92,700	15,010	107,710	92,700	16,476	109,176	92,700	17,435	110,135	92,700	19,327	112,027	546,950
<b>the Marshall Islands</b>																
Section 211	32,200	5,326	37,526	31,700	5,161	36,861	31,200	5,575	36,775	30,700	5,805	36,505	30,200	6,315	36,515	184,182
Section 212 (b)	500	-	500	500	-	500	500	-	500	500	-	500	500	-	500	2,500
Section 216 (a&c)	12,000	1,985	13,985	12,500	2,035	14,535	13,000	2,323	15,323	13,500	2,553	16,053	14,000	2,927	16,927	76,813
Impact Section 212	18,000	-	18,000	18,000	2,330	20,330	18,000	3,217	21,217	18,000	3,404	21,404	18,000	3,764	21,764	103,315
Settlement Section 103 (f)(4)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Section 103 (f)(2)(c)(i)	1,300	215	1,515	1,300	212	1,512	1,300	232	1,532	1,300	246	1,546	1,300	272	1,572	7,677
Impact	64,000	7,526	71,526	64,000	10,138	74,138	64,000	11,347	75,347	64,000	12,008	76,008	64,000	13,278	77,278	374,437
<b>Net</b>																
Section 104 (e)	30,000	-	30,000	30,000	-	30,000	30,000	-	30,000	30,000	-	30,000	29,700	(63)	29,637	149,637
Section Enumeration Section 104 (e)(4)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net	300	50	350	300	49	349	300	54	354	300	57	357	300	63	363	1,772
Net Other	30,300	50	30,350	30,300	49	30,349	30,300	54	30,354	30,300	57	30,357	30,300	63	30,363	151,772
<b>All</b>	<b>187,000</b>	<b>23,825</b>	<b>209,825</b>	<b>187,000</b>	<b>25,197</b>	<b>212,197</b>	<b>187,000</b>	<b>37,877</b>	<b>224,877</b>	<b>187,000</b>	<b>39,503</b>	<b>226,503</b>	<b>187,000</b>	<b>42,620</b>	<b>229,620</b>	<b>1,071,218</b>

**FSM-RMI Compact Payment Projections**  
**2019-2023**  
*(in thousands of dollars)*

	2019 Inflation 21.91%			2020 Inflation 24.91%			2021 Inflation 26.91%			2022 Inflation 28.91%			2023 Inflation 30.91%			Subtotal 2019-2023	Total 2014-2023
	Base		Total	Base		Total	Base		Total	Base		Total	Base		Total		
<b>State of Micronesia</b>																	
Section 211	69,800	15,075	80,875	69,000	16,192	81,192	64,200	17,276	81,476	63,400	18,329	81,729	62,600	19,350	81,950	407,221	1,610,778
Section 212 (b)	500	-	500	500	-	500	500	-	500	500	-	500	500	-	500	2,500	10,000
Section 215	26,400	6,948	32,448	27,200	6,716	33,916	28,000	7,535	35,535	28,800	8,316	37,116	29,600	9,149	38,749	177,834	518,305
Impact	92,700	21,223	113,923	92,700	22,907	115,607	92,700	24,811	117,511	92,700	26,635	119,335	92,700	28,499	121,199	547,555	2,139,082
<b>the Marshall Islands</b>																	
Section 211	29,700	6,804	36,504	29,200	7,274	36,474	28,700	7,723	36,423	28,200	8,153	36,353	27,700	8,562	36,262	182,016	722,737
Section 212 (b)	500	-	500	500	-	500	500	-	500	500	-	500	500	-	500	2,500	10,000
Section 216 (a&c)	14,500	3,122	17,622	15,000	3,737	18,737	15,500	4,171	19,671	16,000	4,626	20,626	16,500	5,100	21,600	98,455	276,246
Impact Section 212	18,000	4,124	22,124	18,000	4,484	22,484	18,000	4,844	22,844	18,000	5,204	23,204	18,000	5,564	23,564	114,219	390,155
Settlement Section 103 (f)(4)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Section 103 (f)(2)(c)(i)	1,300	238	1,538	1,300	324	1,624	1,300	350	1,650	1,300	376	1,676	1,300	402	1,702	8,249	30,020
Impact	64,000	14,548	78,548	64,000	15,818	79,818	64,000	17,088	81,088	64,000	18,358	82,358	64,000	19,628	83,628	405,439	1,424,458
<b>Net</b>																	
Section 104 (e)	30,000	-	30,000	30,000	-	30,000	30,000	-	30,000	30,000	-	30,000	29,700	(93)	29,607	149,607	598,572
Section Enumeration Section 104 (e)(4)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net	300	69	369	300	75	375	300	81	381	300	87	387	300	93	393	1,904	7,428
Net Other	30,300	69	30,369	30,300	75	30,375	30,300	81	30,381	30,300	87	30,387	30,300	93	30,393	151,904	606,028
<b>All</b>	<b>187,000</b>	<b>35,740</b>	<b>222,740</b>	<b>187,000</b>	<b>38,860</b>	<b>225,860</b>	<b>187,000</b>	<b>41,980</b>	<b>228,980</b>	<b>187,000</b>	<b>45,100</b>	<b>232,100</b>	<b>187,000</b>	<b>48,220</b>	<b>235,220</b>	<b>1,144,898</b>	<b>4,170,668</b>

Source: U.S. Dept. of the Interior, Office of Insular Affairs (2018).

Appendix C: Likert-Type Survey questions to FSM National Department of Education

PartNo	Q1.	Q2.	Q3.	Q4.	Q5.	Q6.	Q7.	Q8.	Q9.
1.	1	1	1	1	1	1	1	1	1
2.	1	1	2	1	1	1	2	2	2
3.	1	2	2	3	2	2	2	2	2
4.	1	2	2	3	2	2	2	2	2
5.	2	2	2	3	2	2	2	2	2
6.	2	2	2	3	2	2	3	2	2
7.	2	2	3	3	2	3	3	3	3
8.	3	3	3	3	2	3	3	3	3
9.	3	3	3	3	3	3	3	3	3
10.	3	3	3	3	3	3	4	3	3
11.	3	3	3	3	3	3	4	3	3
12.	3	3	3	3	3	3	4	3	4
13.	3	3	3	3	3	3	4	3	4
14.	3	3	3	3	3	3	4	4	4
15.	3	3	4	4	3	3	4	4	4
16.	4	4	4	4	3	4	4	4	4
17.	4	4	4	4	4	4	4	4	4
18.	4	4	4	4	4	4	4	4	4
19.	4	4	4	4	4	4	4	4	4
20.	3	4	4	4	2	3	4	4	4
21.	3	1	3	4	2	3	4	4	4
22.	3	3	4	4	2	3	4	4	4
23.	2	3	3	4	2	3	4	4	4
24.	2	3	4	4	3	3	4	4	4
25.	4	3	4	4	3	3	4	4	4

Appendix D: Likert-Type Survey questions to FSM National Department of Public Health and Social Services

PartNo	Q1.	Q2.	Q3.	Q4.	Q5.	Q6.	Q7.	Q8.	Q9.
1.	1	1	1	1	1	1	1	1	1
2.	1	1	2	1	1	1	2	2	2
3.	1	2	2	3	2	2	2	2	2
4.	1	2	2	3	2	2	2	2	2
5.	2	2	2	3	2	2	2	2	2
6.	2	2	2	3	2	2	3	2	2
7.	2	2	3	3	2	3	3	3	3
8.	3	3	3	3	2	3	3	3	3
9.	3	3	3	3	3	3	3	3	3
10.	3	3	3	3	3	3	4	3	3
11.	3	3	3	3	3	3	4	3	3
12.	3	3	3	3	3	3	4	3	4
13.	3	3	3	3	3	3	4	3	4
14.	3	3	3	3	3	3	4	4	4
15.	3	3	4	4	3	3	4	4	4
16.	4	4	4	4	3	4	4	4	4
17.	4	4	4	4	4	4	4	4	4
18.	4	4	4	4	4	4	4	4	4
19.	4	4	4	4	4	4	4	4	4
20.	3	4	4	4	2	3	4	4	4
21.	3	1	3	4	2	3	4	4	4
22.	3	3	4	4	2	3	4	4	4
23.	2	3	3	4	2	3	4	4	4
24.	2	3	4	4	3	3	4	4	4
25.	4	3	4	4	3	3	4	4	4

# CULTURAL LEADSHIP SURVEY INSTRUCTIONS

## Cultural Leadership: Insular Area Governance

Cross Cultural Leaderships: The influence of ethical climate,  
leadership integrity, and organizational support

Access thru: <https://www.instant.ly/s/aNcuo>

## WELCOME

You are invited to participate in a study of organizational climate and leadership behaviors conducted by a doctoral student of University of Alaska Fairbanks-University of Guam in partial fulfillment of degree requirements.

## SURVEY SCOPE AND PURPOSE

In this survey, you will be asked questions about the ethical climate and governance on an island setting, including behaviors of leaders and managers. It will take only a few minutes to complete the questionnaire.

## ANONYMITY

All survey responses recorded are anonymous. Data from this survey will only be recorded in the aggregate. You do not have to give your name or reveal any information which makes you directly identifiable. Only demographic data such as gender, age groups, and educational attainment are being collected for purposes of analyzing responses among various insular area islands. We ask for your assistance in providing this demographic data.

## VOLUNTARY

Your participation in this study is completely voluntary. If you are not comfortable responding any of the questions, you do not have to complete this survey. Your responses are anonymous.

## NO INDIVIDUAL BENEFIT OR LOSS

Completion of the survey will have no direct individual impact either in gain or loss as all data collected is to be aggregated and reported only in summarized form.

## CONFIDENTIALITY

This survey information will be used for statistical grouping purposes only, and I'll not be used in any manner to uniquely identify you. Remember, your participation is strictly anonymous,

## CONTACT INFORMATION

If you have any questions at any time about the survey or the procedures, you may contact Zeny Asuncion-Nace, principal researcher for this study at 671-727-5272 or by email at [znace@triton.uog.edu](mailto:znace@triton.uog.edu)

## LET'S GET STARTED!

Thank you very much for your time and support. The survey will only take a few minutes of your time. Please start with the survey now by clicking in the Continue BUTTON below.

## Appendix F: Compacts of Free Association GAO Report GAO-18-415

### Actions Needed to Prepare for the Transition to Trust Fund Income

#### COMPACTS OF FREE ASSOCIATION:

#### Actions Needed to Prepare for the Transition to Trust Fund Income

GAO-18-415: Published: May 17, 2018. Publicly Released: May 17, 2018.

#### Contact:

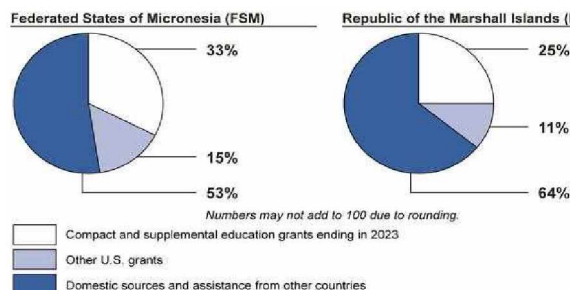
David Gootnick  
(202) 512-3149  
[gootnickd@gao.gov](mailto:gootnickd@gao.gov)

Office of Public Affairs  
(202) 512-4800  
[youngcl@gao.gov](mailto:youngcl@gao.gov)

#### What GAO Found

The Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI) continue to rely on U.S. grants and programs, including several that are scheduled to end in 2023. U.S. compact sector and supplemental education grants, both scheduled to end in 2023, support a third of the FSM's and a quarter of the RMI's expenditures. Agreements providing U.S. aviation, disaster relief, postal, weather, and other programs and services are scheduled to end in 2024, but some agencies may provide programs and services similar to those in the agreements under other authorities. FSM and RMI eligibility for some other U.S. grants and programs is expected to continue after 2023.

#### FSM and RMI Total Expenditures of Government Revenues, Fiscal Year 2016



Sources: GAO analysis of P.L. 109-188, the RMI Military Use and Operating Rights Agreement (MUORA); and FSM and RMI single audit reports. | GAO-18-415

Disbursements from the compact trust funds face risks that the trust fund committees have not addressed. GAO found that the trust funds are increasingly likely to provide no annual disbursements in some years and to not sustain their value. Potential strategies such as reduced trust fund disbursements or additional contributions from the countries or other sources could help address these risks. Changing the trust fund disbursement policies could also address these risks but may require revising the trust fund agreements with each country. However, the trust fund committees have not prepared distribution policies, required by the

agreements, which could assist the countries in planning for the 2023 transition to trust fund income. The committees also have not prepared the required fiscal procedures for oversight of the disbursements or addressed differences between the timing of their annual determination of the disbursement amounts and the FSM's and RMI's annual budget cycles.

The FSM and RMI did not implement planned budget reductions to address decreasing compact grants owing to increased revenues from other sources that offset the grant decreases. Current FSM and RMI infrastructure plans address the 2023 transition, while health and education plans focus on strategic goals. Both countries have established new compact planning committees to identify future challenges and develop plans for the 2023 transition to trust fund income.

#### Why GAO Did This Study

In 2003, the U.S. approved amended compacts of free association with the FSM and RMI, providing a total of \$3.6 billion in economic assistance in fiscal years 2004 through 2023 and access to several U.S. programs and services. Compact grant funding, overseen by the Department of the Interior, generally decreases annually. However, the amount of the annual decrease in grants is added to the annual U.S. contributions to the compact trust funds, managed by joint U.S.-FSM and U.S.-RMI trust fund committees. Trust fund earnings are intended to provide a source of income after compact grants end in 2023, but GAO and others have previously found that the trust funds may not provide sustainable income.

GAO was asked to examine preparations for the transition in 2023. This report examines (1) the use and role of U.S. funds and programs in FSM and RMI budgets, (2) projected trust fund disbursements and potential strategies to address risks to those disbursements, and (3) FSM and RMI plans to prepare for grant decreases and the transition to trust fund income. GAO reviewed compact agreements, audit reports, and U.S. law; modeled trust fund performance under existing conditions and using potential strategies; and reviewed FSM and RMI plans. GAO visited each country and interviewed FSM, RMI, and U.S. officials.

### **What GAO Recommends**

GAO recommends that Interior work with the compact trust fund committees to develop distribution policies and fiscal procedures for the funds and to address disbursement timing. Interior concurred with the recommendations. For more information, contact David Gootnick at (202) 512-3149 or [gootnickd@gao.gov](mailto:gootnickd@gao.gov).

Retrieved from U.S. Government Accountability Office, (2018)  
<https://www.gao.gov/products/GAO-18-415>



## Appendix G: FSM Public Auditor Report No. 2015-08



### OFFICE OF THE FSM NATIONAL PUBLIC AUDITOR

Press Release # 2015-08

#### **ONPA Releases Audit on the FSM Trust Fund: Lack of Board's Oversight Contributed to Non-compliance & Accountability Issues**

The Office of the National Public Auditor (ONPA) announces the release of Audit Report No. 2015-08, *The FSM Trust Fund: Lack of Board's Oversight Contributed to Non-Compliance & Accountability Issues*.

The Speaker of the 18<sup>th</sup> FSM Congress asked the Public Auditor to audit the FSM Trust Fund to ensure that all laws regarding the Trust Fund were being adhered to, and to account for all appropriations made to the Trust Fund since its inception.

The FSM Trust Fund is not the same as the Compact Trust Fund. The Congress created the FSM Trust Fund in 1999 through Public Law No. 10-150 which became known as the "FSM Trust Fund Act." The objectives of the Trust Fund are as follows;

- To contribute to the long-term financial viability of the FSM;
- To provide an additional source of revenue;
- To enhance the capacity of the National Government to receive and effectively utilize external resources in order to;
  - ✓ Assist the National Government and other participating governments to achieve greater financial autonomy in the management of their recurrent budgets;
  - ✓ Enable the FSM at all levels of government to meet long-term maintenance and operating costs of social and economic infrastructure; and,
  - ✓ Enable the FSM at all levels of government to improve existing levels of social and economic infrastructure

The total funding for the Trust Fund had reached \$57 million as of March 31, 2015. However, \$8,015,000 were transferred to the Compact Trust Fund and \$1 million lapsed, leaving a balance of \$48 million for the Trust Fund. \$2 million of total remaining balance were contributed by the Government of the People's Republic of China.

Our audit objectives were to determine whether:

- the management and administration of the FSM Trust Fund were performed in accordance with applicable FSM laws; and,
- all appropriations, donations, transfers, and investment earnings (losses) for the FSM Trust Fund were accurately accounted for and reported.

Based on our audit, we concluded that the FSM Trust Fund was not administered in compliance with the requirements of the FSM Trust Fund Act. For example, a Board of Trustees was not created. Corporate powers and privileges were not established. The books of accounts were not properly maintained.

Annual audits and annual reports were not prepared. The Trust Fund objectives and operational targets were not set. \$10 million was transferred from the General Fund to the Trust Fund without allotment as required by law.

Additionally, we concluded that the Trust Fund was not properly accounted for. For instance, the Trust Fund funds were comingled with other funds. Reconciliation was lacking. Accounting entries were recorded yearly instead of when transactions were consummated.

Consequently, the Trust Fund had no governance system and lacked strategic direction. Goals and objectives were not developed. The necessary oversight roles to monitor and control its operations were lacking. Growth targets were not defined so there was no bench-mark against which to evaluate its financial performance. Without any reconciliation, the required reporting was not provided. Furthermore, the Trust Fund was not provided with a management focus. Ultimately, these issues affected the decision making and the management of the Trust Fund, and thus limited its earnings potential.

The new Secretary of the department and the key staff of the Division of Investment are keen to implement new positive actions to improve the FSM Trust Fund.

Our audit was conducted in accordance with the Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States.

Click here [FSMOPA/AUDIT](#) to access the full report. Printed copies are also available at the ONPA office in Palikir, Pohnpei.

\*\*\*\*\*END\*\*\*\*\*

Office of the National Public Auditor  
P.O. Box PS-05  
Palikir, Pohnpei FM 96941  
Phone: 691-320-2862/2862; Fax: 691-320-5482; Hotline: 691-320-6768  
Website: [www.fsmopa.fm](http://www.fsmopa.fm).

## Appendix H: FY 2018 Budget Justifications on Enhanced Reporting and Accountability

### **Office of Insular Affairs**

### **FY 2018 Budget Justification**

#### **Enhanced Reporting and Accountability**

In 2017, the FSM received a grant of \$1.6 million for the sector entitled "Enhanced Reporting and Accountability." This sector is intended to address the additional complexities and costs of compliance inherent in the Compact, as amended, specifically those related to budgeting, financial accountability, and expanded financial and performance reporting requirements.

Priorities are given to achieving and maintaining full and timely compliance with Articles V and VI of this Agreement, the development and operation of a Financial Management Information System that is capable of accurately and efficiently accounting for and reporting on the use of Compact and all other funds available to the national and state governments of the Federated States of Micronesia; the development and operation of a performance-based budgeting and reporting system for the planned use and expenditure of Compact and all other funds available to each of the national and state governments of the Federated States of Micronesia; and including the development and operation of financial management procedures, practices and internal controls that ensure timely revenue collections, accurate and timely payments, and accurate and timely submission of all required quarterly and annual reports by each of the national and state governments of the Federated States of Micronesia.

## Appendix I: Program Overview

### PROGRAM OVERVIEW

Article I of Title Two of the Compacts of Free Association describes the financial assistance commitment by the United States to the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI). The first period of financial assistance expired on September 30, 2003. Following four years of negotiations led by the Department of State with support from OIA, Congress enacted amendments to the Compact as Public Law 108-188. These amendments also include a new permanent and indefinite appropriation that ensures continuation of direct financial assistance through 2023.

The long term goal of United States' Compact financial support is to assist the freely associated states "in their efforts to advance the economic self-sufficiency of their peoples." The funding provided over the past seventeen years provided the basis for meeting the two primary political goals of the compact, to (1) secure self-government for each country by ending the four decades-old Trusteeship; and (2) ensure national security rights for the United States in the freely associated states. The two primary goals could not have been achieved without the stability compact funding gave the FSM and RMI economies.

The first Compact financial assistance period and related agreements provided funding by category and purpose, and established general guidelines for the use of funds. The local governments, through their own legal processes, allocated funding among self-chosen priorities. Compact funds were disbursed to the FSM and RMI according to negotiated procedures rather than standard Federal practices. All funds dedicated to capital purposes were transferred to the governments the first day of the fiscal year. All operational funding was disbursed in quarterly lump sums. Customary regulations for the use of Federal funds, such as the Common Rule for grant funds, did not apply to Compact funding. The lack of effective enforcement mechanisms over the use of funds was well documented.

During the first Compact period, the FSM and the RMI did not make significant progress toward achieving the long-term Compact goals of self-sufficiency. The U.S. believes part of the reason for poor economic performance over the past seventeen years was in the design of the first Compact itself. The lack of performance standards, measures and monitoring systems allowed poor practices to take root in local government administration.

The amended Compact provides assistance in the form of direct grants in six sectors: education, health care, infrastructure, public sector capacity building, private sector development, and environment. Joint economic management committees, comprised of high ranking officials from the U.S. and the RMI or FSM, meet no less than annually to agree on the allocation of Compact funds among the sectors and to discuss performance, accountability issues and conditions for the use of assistance. OIA serves as the administrator of the financial assistance and ensures enforcement of conditions. An office for monitoring Compact assistance has been established in Honolulu and personnel have also been located in the RMI and FSM capitals. Through a negotiated fiscal procedures agreement, accountability and control standards similar to those which apply domestically to grant agreements between the Federal Government and State and local governments have been implemented.

## Appendix J: Yearly Contributions to the Compact Trust Funds

Date	Fund Contributions (in millions)	
October 1, 2004	\$30.3	FSM
October 5, 2004	\$32.2	U.S.
October 6, 2005	\$16.4	U.S.
October 6, 2006	\$17.7	U.S.
October 9, 2007	\$19.0	U.S.
October 6, 2008	\$20.9	U.S.
October 2, 2009	\$21.5	U.S.
October 7, 2010	\$22.4	U.S.
October 14, 2011	\$ 23.6	U.S.
October 4, 2012	\$ 25.0	U.S.
October 13, 2013	\$ 26.1	U.S.
October 6, 2014	\$ 27.0	U.S.
October 1, 2015	\$ 28.3	U.S.
October 2016	\$ 28.3	U.S.
October 2017	\$ 24.8	U.S.
October 2018	\$ 25.6	U.S.
October 2019	\$ 26.4	U.S.
October 2020	\$ 27.2	U.S.
October 2021	\$ 38.0	U.S.
October 2022	\$ 28.8	U.S.
October 2023	\$ 29.6	U.S.
<i>Total</i>	<i>\$539.1</i>	

Note: Adapted from “Audited FY16 Financial Statements” by Baker Tilly Virchow Krause, LLP, 2017

## Appendix K: Institutional Review Board Letter



(907) 474-7800  
(907) 474-5444 fax  
uaf-irb@alaska.edu  
www.uaf.edu/irb

### Institutional Review Board

909 N Koyukuk Dr. Suite 212, P.O. Box 757270, Fairbanks, Alaska 99775-7270

October 18, 2016

To: Barbara Adams  
Principal Investigator

From: University of Alaska Fairbanks IRB

Re: [892145-1] Navigating Cross-Cultural Leadership in the Insular Areas:Effect on Stewardship and Fiscal Accountability

Thank you for submitting the New Project referenced below. The submission was handled by Exempt Review. The Office of Research Integrity has determined that the proposed research qualifies for exemption from the requirements of 45 CFR 46. This exemption does not waive the researchers' responsibility to adhere to basic ethical principles for the responsible conduct of research and discipline specific professional standards.

Title: Navigating Cross-Cultural Leadership in the Insular Areas:Effect on Stewardship and Fiscal Accountability

Received: April 18, 2016

Exemption Category: 2

Effective Date: October 18, 2016

This action is included on the November 2, 2016 IRB Agenda.

*Prior to making substantive changes to the scope of research, research tools, or personnel involved on the project, please contact the Office of Research Integrity to determine whether or not additional review is required. Additional review is not required for small editorial changes to improve the clarity or readability of the research tools or other documents.*

Appendix L: Introductory Letter to the FSM National Department of Public Health

**From:** fsm consulate <fsm@teleguam.net>  
**Sent:** Wednesday, March 14, 2018 5:45 PM  
**To:** mwalter@fsmhealth.fm  
**Cc:** MRS. ZENAIDA T. ASUNCION-NACE; rruecho@yahoo.com; fsolomon@fsmhealth.fm  
**Subject:** Zeny Asuncion-Nace: Dissertation Project

Dear Honorable Secretary Walter,

Greetings and Hafa Adai from Guam! I wish to relay this communication on behalf of Ms. Zeny Asuncion Nace, who is currently pursuing her dissertation research project, titled "Exploring the Impact of Culture in Strengthening the Stewardship and Accountability of Federal Grants in Pohnpei". At the present time, Ms. Nace is serving as an Instructor and Comptroller at the University of Guam; and with other credentials. Please refer to the summary, attached for your ease of reference. (Abstract summary attached).

Today, Ms. Nace has approached Consul General Robert Ruecho and expressed her gratitude and hopeful that your Office will extend assistance toward her research project. She will be visiting Pohnpei next week and would also like to make an opportunity to meet with you on Tuesday, October 20th. She is also copied here and perhaps she may correspond with the exact time or other arrangements as necessary.

Thank you very much in advance and we look forward to hear from you should you have questions/inquiries.

Kalahngan en komwi,

Johnny Silbanuz  
Foreign Service Officer  
1755 Army Drive Route 16,  
Harmon, Guam  
Tel: (671) 646-9154

## Appendix M: Initial Survey Questions University of Guam Students

1. What is best for everyone in our island is a major consideration.
2. Island leaders are expected to comply with Federal or State laws.
3. In our island, people are expected to follow their own personal, cultural, and moral beliefs first before considering the requirements of Federal or State laws.
4. In our island, people protect their own interests above all else.
5. The most important concern in our island is the good of all the people even when it conflicts with Federal or State laws.
6. Culture-driven leadership impacts the manner of accountability and stewardship of Federal and/or State funds.
7. In our island, it is expected that leaders will always do what is right for the general public even when it may conflict with Federal and State laws.
8. The most efficient way is always the right way in our island.
9. There is no room for one's own personal morals or ethics in our island
10. In our island, the law or ethical code of their profession is a major consideration.
11. People are expected to do anything to further the island's interests, regardless of the consequences.
12. In our island, people are expected to strictly follow ethical or professional standards.
13. In our island, the first consideration is whether a decision violates any law or ethical standards before considering profits.
14. In our island, people are guided by their own personal ethics.
15. People are concerned with the island's interests over their own.
16. I would be happy to work at an office under the control of my island's government until I retire.
17. The organizations controlled by my island's leaders give recognition for good work.
18. Decisions in work are usually made in consultation with the people of my island affected by such decision.



# Appendix N: Initial Survey Results University of Guam Students

34 out of 45 completed																	
INITIAL SURVEY RESULTS- UNIVERSITY OF GUAM STUDENTS																	
Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Q15	Q16	Q17	Q18
4	6	3	4	5	4	3	4	3	4	3	5	4	5	4	4	5	4
4	6	2	5	5	6	5	3	4	6	3	6	4	3	2	3	4	4
4	3	3	4	4	4	4	4	4	4	3	4	3	4	4	4	4	4
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6	6	3	5	6	5	1	2	3	5	1	3	4	5	3	3	4	2
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4	5	4	4	5	4	4	4	4	4	4	4	4	4	4	3	3	3
5	6	4	5	3	6	5	4	1	6	2	6	5	4	5	5	5	5
6	6	5	2	2	6	2	2	1	6	3	6	6	6	6	3	1	1
5	6	1	6	1	5	6	2	3	5	1	6	1	4	2	1	2	2
6	6	5	4	6	6	5	3	1	5	5	5	5	5	4	5	4	2
4	5	3	3	4	4	3	3	2	4	3	5	4	4	4	4	4	4
5	6	4	4	4	5	5	3	4	4	4	4	3	4	4	4	4	3
2	5	5	4	5	5	2	2	3	4	3	3	3	2	2	2	2	1
5	6	5	4	4	5	5	5	4	4	4	4	4	4	5	5	3	2
5	6	2	2	2	6	1	6	2	6	1	6	6	2	5	4	4	3
6	5	3	4	2	2	2	3	1	5	2	5	5	5	3	4	4	3
5	5	3	4	4	4	4	3	2	4	4	4	3	4	3	4	4	2
5	6	1	2	3	3	3	4	1	5	1	6	4	5	3	4	4	3
5	5	3	4	4	5	4	2	2	3	1	4	4	3	5	3	1	2
5	6	5	6	2	6	1	1	2	2	2	5	2	6	2	1	1	1
5	4	5	4	6	6	6	3	1	5	4	4	4	5	4	5	5	4

Attributes: leadership, ethical standards, governance

1 completely false; strongly disagree    4 neutral

2 mostly false; somewhat disagree    5 mostly true; somewhat agree

3 Somewhat true    6 completely true; strongly agree